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BEFORE THE ARIZONA CORPORATION COMMISSION

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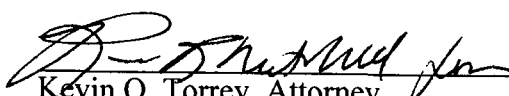
IN THE MATTER OF THE APPLICATION OF
BLACK MOUNTAIN SEWER CORPORATION,
AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. SW-02361A-08-0609

**STAFF'S NOTICE OF FILING
SURREBUTTAL TESTIMONY**

The Utilities Division of the Arizona Corporation Commission ("Staff") hereby provides notice of filing of the Surrebuttal Testimony of Crystal S. Brown, Juan C. Manrique, and Dorothy Hains in the above-referenced matter.

RESPECTFULLY SUBMITTED this 9th day of November, 2009.

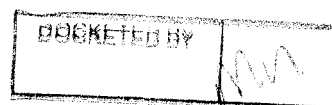

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Original and 13 copies of the
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Arizona Corporation Commission
DOCKETED

NOV - 9 2009



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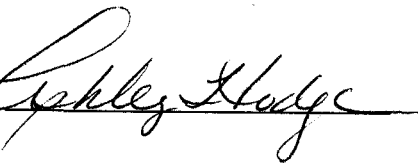
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**SURREBUTTAL
TESTIMONY**

OF

**CRYSTAL S. BROWN
JUAN C. MANRIQUE
DOROTHY HAINS**

DOCKET NO. SW-02361A-08-0609

**IN THE MATTER OF THE APPLICATION OF
BLACK MOUNTAIN SEWER CORPORATION,
FOR A DETERMINATION OF THE FAIR
VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON**

NOVEMBER 9, 2009

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. SW-02361A-08-0609
BLACK MOUNTAIN SEWER CORPORATION,)
FOR A DETERMINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON.)
_____)

SURREBUTTAL

TESTIMONY

OF

CRYSTAL S. BROWN

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 9, 2009

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EXECUTIVE SUMMARY
BLACK MOUNTAIN SEWER COMPANY, INC.
DOCKET NO. SW-02361A-08-0609

Staff recommends an increase in revenue of \$543,935 or a 34.42 percent increase over test year revenue of \$1,580,170. The total annual revenue of \$2,124,117 produces an operating income of \$316,349 or a 9.40 percent rate of return on Staff's recommended fair value rate base of \$3,365,416. Staff's Surrebuttal Testimony responds to Black Mountain Sewer Company's Rebuttal Testimony on the following issues:

1. Rate Base
 - a. Odor Control Plant Equipment
 - b. Unrecorded Plant – New Lift Station
 - c. Accumulated Depreciation
 - d. Advances in Aid of Construction
 - e. Accumulated Deferred Income Taxes
 - f. Working Capital
2. Operating Income
 - a. City of Scottsdale Treatment Price Increase and Annualization
 - b. Chemicals Expense Price Increase and Annualization
 - c. Testing Expense
 - d. Rents Expense
 - e. Contract Services – Legal and Engineering Expense
 - f. Bad Debt Expense
 - g. Rate Case Expense
 - h. Bonuses, Meals, and Other Expenses
 - i. Contract Services - \$42,200 Aerotek Invoice
 - j. Central Office Fixed Costs (Corporate Expense Allocation)
 - k. \$50,302 Algonquin Water Services Increase
 - l. Transportation Expense
 - m. Depreciation Expense
 - n. Property Tax Expense
 - o. Income Tax Expense
3. Purchased Wastewater Treatment Adjustor Mechanism
4. Rate Design
 - a. Special Rate Classes
 - b. Effluent Rate

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Crystal S. Brown. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Crystal S. Brown who filed Direct Testimony in this case?

A. Yes.

PURPOSE OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your Surrebuttal Testimony in this proceeding?

A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of Staff, to the Rebuttal Testimony of Mr. Thomas J. Bourassa who represents Black Mountain Sewer Company, Inc. ("Black Mountain" or "Company").

Q. Did you attempt to address every issue raised by the Company in its Rebuttal Testimony?

A. No. I limited my discussion to certain issues as outlined below. My silence on any particular issue raised in the Company's rebuttal testimony does not indicate that I agree with the Company's stated rebuttal position on the issue. Rather, where I do not respond, I rely on my Direct Testimony.

Q. What issues will you address?

A. I will address the issues listed below that are discussed in the Rebuttal Testimony of Black Mountain witness Mr. Thomas J. Bourassa.

1. Rate Base

a. Odor Control Plant Equipment

- b. Unrecorded Plant – New Lift Station
- c. Accumulated Depreciation
- d. Advances in Aid of Construction
- e. Accumulated Deferred Income Taxes
- f. Working Capital

2. Operating Income

- a. City of Scottsdale Treatment Price Increase and Annualization
- b. Chemicals Expense Price Increase and Annualization
- c. Testing Expense
- d. Rents Expense
- e. Contract Services – Legal and Engineering Expense
- f. Bad Debt Expense
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- i. Contract Services - \$42,200 Aerotek Invoice
- j. Central Office Fixed Costs (Corporate Expense Allocation)
- k. \$50,302 Algonquin Water Services Increase
- l. Transportation Expense
- m. Depreciation Expense
- n. Property Tax Expense
- o. Income Tax Expense

3. Purchased Wastewater Treatment Adjustor Mechanism

4. Rate Design

- a. Special Rate Classes
- b. Effluent Rate

Q. What is Staff's recommended revenue?

A. Staff recommends an increase in revenue of \$543,935 or a 34.42 percent increase over test year revenue of \$1,580,170. The total annual revenue of \$2,124,117 produces an operating income of \$316,349 or a 9.40 percent rate of return on Staff's recommended fair value rate base of \$3,365,416.

RATE BASE

Odor Control Plant Equipment

Q. What plant does the Company propose to add to its rate base?

A. The Company has requested to include a \$38,625 odor control unit that was not included in rate base. According to the Company's response to DH 2.17:

The odor control unit was acquired and installed in June 2008. The unit came from LPSCO, an affiliate of BMSC. LPSCO no longer required the use of this unit, and BMSC's plant can greatly benefit from its use. Inadvertently, no entry was made on the Company's books to reflect the transfer, as it should have. The unit cost \$38,625 in 2002.

Q. Has Staff determined whether or not the plant should be included in rate base?

A. No, Staff has not. Staff needs to verify the cost of the plant, recalculate the accumulated depreciation, and determine how the plant was financed. Additionally, an adjustment to Advances in Aid of Construction ("AIAC") or Contribution in Aid of Construction ("CIAC") may need to be made. Staff is currently awaiting the Company's supporting documentation and other information related to the odor control unit.

Q. Will Staff make its recommendation at or before the hearing date?

A. Yes.

Rate Base Adjustment No. 1 - Unrecorded Plant Addition, New Lift Station

Q. Did Staff review the Company's rebuttal testimony concerning the new lift station?

A. Yes. The Company is proposing a revised amount of \$254,251 in order to reflect the actual cost of the lift station.

1 **Q. What adjustment did Staff make?**

2 A. Staff originally used the Company proposed \$276,985 in its direct testimony. The
3 Company, in its rebuttal testimony, indicated that the \$276,985 amount was an estimate
4 and states that the actual cost of the asset is \$254,251.

5
6 **Q. What is Staff's recommendation?**

7 A. Staff recommends \$254,251 for the plant asset as shown on Surrebuttal Schedule CSB-5.
8 This amount supersedes and replaces the \$276,985 amount used in Staff's direct
9 testimony.

10
11 *Rate Base Adjustment No. 3- Accumulated Depreciation*

12 **Q. Has Staff reviewed the Company's rebuttal testimony concerning its proposed**
13 **accumulated depreciation adjustment?**

14 A. Yes.

15
16 **Q. Does Staff agree with the Company's calculation of accumulated depreciation?**

17 A. No, Staff does not. Staff calculated a different balance.

18
19 **Q. Why is Staff's balance different?**

20 A. There are four reasons why Staff's balance is different. First, Staff does not include the
21 odor control unit in plant. Second, Staff calculated a different amount for the correction of
22 the error discussed by Mr. Bourassa on page 6 (Adjustment E) and shown on his rebuttal
23 Schedule B-2 page 4, line 30, Col. E. The Company calculated \$96,152 for the increase
24 due to correction of the error; however Staff calculated \$98,036. Third, Staff reduced the
25 cost of the new lift station by \$22,734, from \$276,985 to \$254,251; this lowered
26 depreciation expense by \$189. Fourth, Staff corrected another error found while

1 reviewing the Company's testimony which involved reflecting the correct Commission-
2 authorized end of test year plant balance and the post-test year plant authorized in the last
3 rate case in a conforming manner. The correction increased accumulated depreciation by
4 \$2,142.

5
6 **Q. Would you please discuss the correction made to reflect the Commission-authorized**
7 **plant balance from the last rate case?**

8 A. Yes. In the Company's last rate case, Commission Decision No. 69164 authorized a plant
9 balance of \$8,630,686 (Dec. No. 69164, Page 9, line 23). However, the Company used a
10 beginning plant balance of \$8,544,987, as shown on rebuttal Schedule B-2, Page 3.1. This
11 is a difference of \$85,699 and reflects the post-test year ("PTY") plant authorized in
12 Decision 69164.

13
14 The Company removes the \$85,699 to arrive at its "Initial Balance" of \$8,544,987 shown
15 on Schedule B-2, page 3.6 of the Company's direct testimony of the instant case. Further,
16 the Company uses this "Initial Balance" of \$8,544,987 to calculate its accumulated
17 depreciation. Staff corrects this error by adding \$85,699 to the 2004 Other Plant and Misc
18 Equipment balance (i.e., account no. 339) and subtracting \$85,699 from the 2005 plant
19 additions balance for the same account. This increases accumulated depreciation by
20 \$2,142.

21
22 **Q. What is the net effect of Staff's adjustments?**

23 A. The net effect of Staff's adjustments increases accumulated depreciation by \$99,989
24 (\$98,036 for the correction of error + \$2,142 for reflection of Commission-authorized
25 plant balance - \$189 for lower cost of new lift station) from its Direct Testimony (i.e.
26 \$5,714,143 Surrebuttal - \$5,614,154 direct = \$99,989).

1 **Q. What is Staff's Surrebuttal recommendation for accumulated depreciation?**

2 A. Staff's recommends increasing accumulated depreciation by \$89,118, from \$5,625,025 to
3 \$5,714,143 as shown on Surrebuttal Schedule CSB-7.

4
5 *Rate Base Adjustment No. 4 - AIAC, New Lift Station*

6 **Q. Has Staff reviewed the Company's Rebuttal Testimony concerning the AIAC**
7 **balance?**

8 A. Yes.

9
10 **Q. Does Staff agree with the Company that the \$254,251 should be reflected for the new**
11 **lift station?**

12 A. Yes. Staff's adjustment to reflect the actual cost in AIAC is shown on Surrebuttal
13 Schedule CSB-8.

14
15 **Q. What is Staff's Surrebuttal recommendation?**

16 A. Staff's recommends increasing AIAC by \$254,251, from \$1,457,009 to \$1,711,260 as
17 shown on Surrebuttal Schedule CSB-8.

18
19 *Rate Base Adjustment No. 5 - Accumulated Deferred Income Taxes*

20 **Q. What are accumulated deferred income taxes ("ADITs")?**

21 A. ADITs are the accumulated computed tax differences between income taxes calculated for
22 rate-making purposes and the actual income taxes that a company pays to the United
23 States Treasury and the State of Arizona.

1 **Q. What is the primary cause of the income tax difference?**

2 A. The primary cause of the income tax difference is the straight line depreciation method
3 used for rate making purposes and accelerated depreciation method used for federal and
4 state income tax reporting purposes.

5
6 The National Association of Regulatory Utility Commissioners ("NARUC") Uniform
7 System of Accounts ("USOA") requires utilities to use straight line depreciation. Straight
8 line depreciation, in the early years of an asset's life, results in a lower depreciation
9 expense which, in turn, results in a higher income tax. Conversely, the IRS allows
10 companies to use accelerated depreciation. Accelerated depreciation, in the early years of
11 an asset's life, results in a higher depreciation expense which, in turn, results in lower
12 income taxes. When an asset is fully depreciated for tax purposes, the situation begins to
13 reverse. The ADIT balance reduces to zero when the asset is fully depreciated under
14 straight line depreciation.

15
16 **Q. Would you provide an example of how depreciation expense affects income taxes?**

17 A. Yes. In the example that follows, income taxes are calculated for a plant asset costing
18 \$6,000 with a five year useful life. The difference in income taxes is reflected in the
19 ADIT balance.

20
21 \$6,000 Asset

22 Accelerated Useful Life = 3 years

23 Accelerated Depreciation Expense Used for IRS = $\$6,000 / 3 \text{ years} = \$2,000$

24 Ratemaking Life = 5 years

25 Ratemaking Depreciation Expense = $\$6,000 / 5 \text{ years} = \$1,200$

26 Tax Rate = 40%

Year	Income Tax Effect of Depreciation Expense on State and Federal Income Taxes	Income Tax Effect of Depreciation Expense on Books for Rate Making Purposes	Current Year Deferred Income Tax	Accumulated Deferred Income Tax Balance
1	$\$2,000 \times 40\% = \800	$\$1,200 \times 40\% = \480	$\$800 - \$480 = \$320$	\$320
2	$\$2,000 \times 40\% = \800	$\$1,200 \times 40\% = \480	$\$800 - \$480 = \$320$	$\$320 + \$320 = \$640$
3	$\$2,000 \times 40\% = \800	$\$1,200 \times 40\% = \480	$\$800 - \$480 = \$320$	$\$640 + \$320 = \$960$
4	$\$ 0 \times 40\% = \$ 0$	$\$1,200 \times 40\% = \480	$\$ 0 - \$480 = (\$480)$	$\$960 - \$480 = \$480$
5	$\$ 0 \times 40\% = \$ 0$	$\$1,200 \times 40\% = \480	$\$ 0 - \$480 = (\$480)$	$\$480 - \$480 = \$ 0$

Q. Why are ADITs normally a reduction to rate base?

A. ADITs are normally a reduction to rate base to reflect that in the early years of an asset's life customers are providing more in cash for income taxes than the company actually has to pay. While the Company has this additional cash, it represents cost free capital provided by the rate payers.

Q. If ADITs are normally deducted from rate base, why is the Company proposing to add the ADIT to rate base?

A. The Company is proposing to add the ADIT to rate base because the Company has calculated an ADIT with a negative balance. The effect of subtracting an ADIT with a negative balance results in a net ADIT addition to rate base.

Q. Are ADIT balances normally negative or positive?

A. ADIT balances are normally positive as shown in the example provided above.

Q. What would a negative ADIT balance indicate to Staff?

A. A negative ADIT balance would indicate an error in calculation or some type of unusual treatment of the depreciation expense by the Commission or the IRS.

1 **Q. Did Staff find an error in the Company's ADIT pro forma adjustment?**

2 A. Yes. Under the IRS rules, only advances in aid of construction for *service connections* are
3 includable as revenue. Since the Commission does not recognize AIAC as revenue, an
4 income timing difference would be created. The Company, however, has incorrectly
5 included almost all of its AIAC balance in the ADIT calculation.

6
7 **Q. Did the Company provide adequate documentation evidencing unusual treatment of**
8 **depreciation expense by the Commission or the IRS for its ADIT balance?**

9 A. No, the Company did not provide adequate documentation evidencing unusual treatment
10 of depreciation expense by the Commission or the IRS for its ADIT balance.

11
12 **Q. What is Staff's recommendation concerning the Company's proposed ADIT**
13 **balance?**

14 A. Staff recommends increasing accumulated deferred income taxes by \$170,554, from a
15 negative \$170,554 to \$0 as shown on Surrebuttal Schedule CSB-9.

16
17 *Rate Base Adjustment No. 6 - Working Capital*

18 **Q. What amount of working capital did the Company propose in its rebuttal testimony?**

19 A. The Company proposed \$32,142 for working capital.

20
21 **Q. What are the components of the Company's proposed working capital?**

22 A. The components are as follows: \$14,816 for cash working capital and \$17,326 for
23 prepayments. Staff will discuss each separately.

24

1 **Q. Did Staff make any adjustments to working capital?**

2 A. Yes, Staff adjusted both cash working capital and prepayments. Staff will discuss each
3 separately.

4

5 Cash Working Capital – Lead/Lag Study

6 **Q. What is cash working capital?**

7 A. Cash working capital measures the amount of cash that a company needs to pay day to day
8 cash operating expenses during the period that service is provided until the date that the
9 customer pays for the service. Cash working capital can be positive or negative. A
10 positive amount indicates that the company provided the cash and it is included in rate
11 base.

12

13 **Q. What does a negative cash working capital indicate?**

14 A. A negative cash working capital indicates that customers provided cash in advance of the
15 company providing service. It is a reduction of rate base.

16

17 **Q. Would a negative cash working capital be normal if a utility bills in advance of
18 providing service?**

19 A. Yes, because the utility is receiving the cash prior to providing service.

20

21 **Q. What components of the Company's lead-lag study did Staff adjust?**

22 A. Staff adjusted operating expenses, revenue lag days, and expense lag days. Staff will
23 discuss each separately.

24

Operating Expenses of Lead/Lag Study

Q. What adjustments did Staff make to operating expenses?

A. Staff reflected Staff's recommended amounts of operating expenses, removed rate case expense, and added \$72,047 to reflect synchronized interest as shown on Surrebuttal Schedule CSB-10, page 2.

Q. Why did Staff remove rate case expense?

A. The Company is proposing to include \$78,011 of rate case expense in rate base as cash working capital as shown on the Company's Rebuttal Schedule Column F, line 27. Staff notes that this amount is larger than the \$76,667 that the Company is proposing to include in operating expenses. Staff removed rate case expense so that customers would not be required to pay a rate of return on any portion of the rate case expense.

Revenue Lag Days of Lead/Lag Study

Q. What is the service period, billing date, and payment due date for the typical Black Mountain customer?

A. A customer's service period usually begins on the 1st of each month and ends on the last day of each month. Black Mountain typically sends out a bill on the 4th day of the month and the payment is due on the 26th day of the month as follows:

<u>Service Begins</u>	<u>Bill Sent</u>	<u>Service Midpoint</u>	<u>Payment Is Due</u>	<u>Service Ends</u>
1 st Day	4 th Day	15 th Day	26 th Day	30 th Day

1 **Q. What is a revenue lead or lag?**

2 A. A revenue lead is the number of days before the provision of service that a customer pays
3 for his bill. A revenue lag is the number of days or after the provision of service that a
4 customer pays for that service.

5
6 **Q. How is it measured?**

7 A. In respect to Black Mountain's unmetered customers, which generates approximately 98
8 percent of the Company's revenue, the revenue lag is measured from the midpoint of the
9 customer's service period (i.e., approximately the 15th of the month) to the date the
10 Company receives the customer's payment.

11
12 **Q. Does Black Mountain's billing practice require a customer to pay for service for the**
13 **full month even before customers have received the last four to five days of service**
14 **for that month?**

15 A. Yes. A typical customer must pay his or her bill approximately four to five days before
16 the end of the service period as shown above.

17
18 **Q. How does the Company's billing practice impact its revenue lag?**

19 A. It significantly reduces the payment lag because customers are required to prepay the last
20 four or five days of service.

21
22 **Q. What revenue lag did the Company propose?**

23 A. The Company proposed a revenue lag of 11.40 days.
24

1 **Q. Was the 11.40 revenue lag days measured from the midpoint of service to the date**
2 **the bill was paid?**

3 A. No, it was not. According to the Company's Rebuttal Schedule B-5, line 40:

4
5 *Revenue lag days equal -15 service lag plus 4.65 day billing lag*
6 *plus 21.75 average customer payment lag.*
7

8 The calculation is as follows: $-15 + 4.65 + 21.75 = 11.40$
9

10 **Q. For unmetered sewer customers, should the calculation of revenue lag include a**
11 **service lag and a billing lag?**

12 A. No, it should not. A service lag is measured from the midpoint of service to the date a
13 *meter* is read. A billing lag is measured from the date a *meter* is read to the date a bill is
14 sent. Since over 98 percent of the revenue generated comes from customers who do not
15 have meters, including a service lag and billing lag is inappropriate.
16

17 **Q. How did the Company calculate its 21.75 day average customer payment lag?**

18 A. The Company calculated its 21.75 day average customer payment lag by incorrectly
19 measuring from the bill date to the customer payment date. The correct method to
20 calculate the customer payment lag is to measure from the midpoint of service rather than
21 the bill date. For example, a bill is mailed on August 6, 2008, and the customer pays the
22 bill on August 16, 2008. The Company would calculate a payment lag of 10 days.
23 However, the actual payment lag is one day (measured from August 15th, the midpoint of
24 service, to the payment date of August 16th). The Company's methodology would
25 overstate the customer's payment lag by nine days.
26

1 **Q. Is the Company's calculation of the revenue lag fair to customers?**

2 A. No, it is not fair to customers because it inappropriately calculates a service lag and a
3 billing lag when all customers except effluent customers have no meters. Further, the
4 Company incorrectly calculates the customer payment lag by measuring from the bill date
5 rather than the midpoint of service to the payment date. This has the effect of overstating
6 the revenue lag.

7
8 **Q. What customer payment patterns were found in the Company's last rate**
9 **proceeding?**

10 A. The study in the last rate proceeding found that customers paid their bills the following
11 number of days after the midpoint of service (usually the 15th): 8, 10, 10, 6, 7, 8, 2, 8, 6,
12 and 11.

13
14 **Q. What revenue lag was calculated in the last rate proceeding?**

15 A. A revenue lag of 7.83 was calculated in the Company's last rate proceeding.

16
17 **Q. How does the Company proposed 11.4 revenue lag days compare to the 7.83 revenue**
18 **lag days in the Company's last rate case?**

19 A. The 11.4 revenue lag days proposed by the Company is approximately 3.57 days higher
20 than the prior calculation or revenue lag days. This difference could be due to the fact that
21 the study performed in the Company's last rate proceeding calculated the customer
22 payment lag from the midpoint of service whereas the study performed in the instant case
23 did not.

24

1 **Q. What adjustment did Staff make to revenue lag days?**

2 A. Staff adjusted the amount by averaging the revenue lag days with the revenue lags days of
3 the prior case to mitigate the impact of the Company's overstated lag days caused by its
4 incorrect calculation.

5
6 **Q. What is Staff's recommendation for revenue lag days?**

7 A. Staff recommends 9.6 revenue lag days calculated as follows: $(7.83 + 11.4)/2 = 9.6$
8

9 *Expense Lag Days of Lead/Lag Study*

10 **Q. What are expense leads or lags?**

11 A. An expense lead is the number of days before an operating expense is due that a company
12 pays for that expense. An expense lag is the number of days after an operating expense is
13 due that a company pays for that expense.

14
15 **Q. Are the Company's expense lags based on actual payment dates?**

16 A. The Company provided no evidence (e.g. invoices and canceled checks) to support that
17 the expenses were based on actual payment dates.
18

19 **Q. What adjustment did Staff make to the Company's proposed expense lags for**
20 **Scottsdale capacity lease?**

21 A. The Company proposes a negative 15 expense lag days because the debt used to purchase
22 the capacity is paid on the first of the month (Bourassa Rebuttal Schedule B-5, line 44).
23 Staff did not use this approach because the Commission has authorized this debt payment
24 to be treated as an operating expense. As such, Staff increased the number of expense lag
25 days from a negative 15 to 45. The 45 expense lag days is the number of lag days that the
26 Company is proposing for "Other Operating Expenses."

1 **Q. What adjustment did Staff make to the Company's proposed expense lags for**
2 **Regulatory Commission Expense (i.e., rate case expense)?**

3 A. The Company proposes to use a negative 360 expense lag days for rate case expense
4 because "Rate case expense lag days are paid before rates go into effect." (Bourassa
5 Rebuttal Schedule B-5, line 46). Staff removed the expense lag days to be consistent with
6 Staff's removal of rate case expense from the cash working capital calculation.
7

8 **Q. What adjustment did Staff make to the Company's proposed expense lags for**
9 **Insurance Expense?**

10 A. The Company proposes to use a negative 270 expense lag days for insurance expense
11 because it states "Insurance is paid once annually" (Bourassa Rebuttal Schedule B-5, line
12 47). Staff reviewed the insurance account activity on the general ledger that was provided
13 in response to MEM 1.06 and found that the Company makes regular payments to its
14 affiliates for insurance. Therefore, consistent with this observation, Staff utilized that 15
15 expense lag days that the Company proposes for other expenses paid to affiliates.
16

17 **Q. What adjustment did Staff make to the Company's proposed expense lags for**
18 **Property Tax Expense?**

19 A. The Company proposes to use a 182 expense lag days for property tax expense because it
20 states "Property tax expense lag days equals to the weighted average lag days for payment
21 of property taxes due on October 1 of current year and May 1 of following year"
22 (Bourassa Rebuttal Schedule B-5, line 51). Staff used 212 days. This number of lag days
23 has been previously authorized by the Commission for property taxes (Decision No.
24 66849, page 8, line 16).
25

1 **Q. What adjustment did Staff make to the Company's proposed expense lag days for**
2 **Income Tax Expense?**

3 A. The Company proposes to use 37 expense lag days for income tax expense. The
4 Company does not file an individual income tax return because the Company's income is
5 consolidated with its affiliates and included on the income tax return of the parent
6 company. It is the Commission's practice, however, to calculate income taxes for utilities
7 on a stand-alone basis. Utilities commonly pay their income taxes on a quarterly basis.
8 Consistent with this approach, Staff calculated 91.25 expense lag days by dividing 365
9 days by 4 quarterly tax payments.

10
11 **Q. Why did Staff include Interest Expense?**

12 A. Interest expense is a component of return and, therefore, a component of revenue. Interest
13 expense requires a cash payment. The Company collects cash used to make interest
14 payments prior to the interest due date. While Black Mountain has possession of these
15 funds, they are a source of cost-free cash that the Company can use until making
16 payments. Staff calculated 91.25 expense lag days by dividing 365 days by 4 quarterly
17 interest payments.

18
19 *Staff's Recommended Cash Working Capital*

20 **Q. What is Staff's recommendation for cash working capital?**

21 A. Staff recommends decreasing cash working capital by \$101,242, from \$0 to a negative
22 \$101,242 as shown on Surrebuttal Schedule CSB-10.

23

Prepayments

Q. What amount of prepayments is the Company proposing to include in working capital?

A. The Company is proposing to include \$17,326 for prepayments. The amount is composed of \$1,927 for prepaid licenses, fees, and permits; \$9,034 for prepaid rent; and \$6,365 for prepaid insurance.

Q. Does Staff agree that \$17,326 is the correct amount of prepayments to be included in working capital?

A. No, because the prepayment balances proposed by the Company are not the same as the prepayment balances reported in the Company's general ledger.

Q. Did the Company provide Staff with two general ledgers for the same test year?

A. Yes. The Company provided Staff with a general ledger in response to MEM 1.06. However, that general ledger was out of balance by approximately \$84,000. The Company later provided Staff with another general ledger in response to CSB 10.12 which was in balance.

Q. Are the balances for the prepayments the same in both general ledgers?

A. Yes.

Q. What are the balances?

A. The balances are as follows: a negative \$195 for prepaid licenses, fees, and permits; \$2,174 for prepaid rent; and \$7,273 for prepaid insurance, for a total of \$9,251.

1 **Q. Did Staff identify a cost classified as a prepayment that should be removed?**

2 A. Yes, Staff identified a \$2,100 payment made to the Maricopa Department of Environment
3 Quality for a permit fee. This cost should be included in the construction work in progress
4 ("CWIP") project to which it relates and capitalized.

5
6 **Q. What is Staff's recommendation for prepayments?**

7 A. Staff recommends increasing prepayments capital by \$7,152, from \$0 to \$7,152 as shown
8 on Surrebuttal Schedule CSB-10.

9
10 Total Working Capital

11 **Q. What is Staff's recommendation for Total Working Capital?**

12 A. Staff recommends total working capital of a negative \$94,091 consisting of a negative
13 \$101,242 for cash working capital and \$7,151 for prepayments.

14
15 *Lead/Lag Study for Company's Next Rate Case*

16 **Q. Does Staff have any recommendations for the Company's lead/lag study for its next**
17 **rate case?**

18 A. Yes, Staff recommends that the revenue lead or lag be measured from the midpoint of
19 service to the actual payment date. Staff further recommends that the expense lead or lag
20 days be based upon the actual payment patterns of the Company and not its affiliate.

21

OPERATING INCOME

Operating Income Adjustment Nos. 1 and 2 - City of Scottsdale Treatment Price Increase and Annualization

Q. Did Staff review the Company's rebuttal testimony concerning the purchased wastewater treatment expense?

A. Yes. The Company indicated that the City of Scottsdale has recently increased its wastewater treatment rate from \$2.53 to \$2.61 and that the new rate should be reflected in operating expenses. The Company also proposes to annualize the expense.

Q. Does Staff agree with the Company?

A. Yes. Staff recommends an increase of \$3,125 composed of \$2,509 for the price increase and \$616 for the annualization as shown on Surrebuttal Schedules CSB-13, and CSB-14.

Q. What is Staff's recommendation for purchased wastewater treatment expense?

A. Staff recommends increasing purchased wastewater treatment expense by \$3,125, from \$335,255 to \$338,380 as shown on Surrebuttal Schedule CSB-11 and page 2 of Surrebuttal Schedule CSB-12.

Operating Income Adjustment Nos. 3 and 4 - Chemicals Expense Price Increase and Annualization

Q. Did Staff review the Company's Rebuttal Testimony concerning chemicals expense?

A. Yes. The Company asserts that it has switched to a more expensive type of chemical and that the cost should be annualized.

1 **Q. Does Staff agree with the Company?**

2 A. Yes. Staff recommends an increase of \$3,324 for chemicals expense composed of \$3,191
3 for the price increase and \$133 for the annualization as shown on Surrebuttal Schedules
4 CSB-15 and CSB-16.

5
6 **Q. What is Staff's recommendation for chemicals expense?**

7 A. Staff recommends increasing chemicals expense by \$3,324 from \$37,489 to \$40,813 as
8 shown on Surrebuttal Schedule CSB-11 and page 2 of Surrebuttal Schedule CSB-12.

9
10 *Operating Income Adjustment No. 12 - Testing Expense*

11 **Q. Did Staff review the Company's rebuttal testimony concerning testing expense?**

12 A. Yes.

13
14 **Q. Does Staff agree with the Company's proposed amount?**

15 A. No, Staff calculated a different amount as discussed in the testimony of Staff witness,
16 Dorothy Hains.

17
18 **Q. What is Staff's recommendation for testing expense?**

19 A. Staff recommends decreasing testing expense by \$1,733 from \$16,955 to \$15,222 as
20 shown on Surrebuttal Schedule CSB-11 and page 2 of Surrebuttal Schedule CSB-12.

21
22 *Operating Income Adjustment No. 10 - Rents Expense*

23 **Q. Did Staff review the Company's rebuttal testimony concerning rents expense?**

24 A. Yes. The Company states that Staff did not include the rental cost of the storage space in
25 its calculation of rents expense.

26

1 **Q. Does Staff agree with the Company?**

2 A. Yes.

3
4 **Q. What is Staff's recommendation for rental expense?**

5 A. Staff recommends increasing rental expense by \$18,432 from \$19,830 to \$38,262 as
6 shown on Surrebuttal Schedule CSB-11 and page 2 of Surrebuttal Schedule CSB-12.

7
8 *Operating Income Adjustment No. 12 - Contract Services, Legal and Engineering Expense*

9 **Q. Did Staff review the Company's rebuttal testimony concerning contract services –**
10 **legal and engineering expense?**

11 A. Yes. The Company claims that Staff incorrectly removed \$1,500 prior to normalizing the
12 expense over three years.

13
14 **Q. Does Staff agree with the Company?**

15 A. No, Staff does not. Only allowable operating expenses (i.e., expenses that are properly
16 classified as contract services-other expenses) should be recorded in contract services-
17 other expense account. The \$1,500 cost that Staff removed from the contract services –
18 other account was a capital cost. Therefore, it should have been capitalized rather than
19 expensed. Inappropriate expenses should be removed from an account prior to
20 normalizing.

21
22 **Q. What is Staff's recommendation for contract services - legal and engineering**
23 **expense?**

24 A. Staff recommends decreasing contract services – legal and engineering by \$4,861, from
25 \$9,362 to \$4,501 as shown on Surrebuttal Schedule CSB-11 and page 2 of Surrebuttal
26 Schedule CSB-12.

1 *Operating Income Adjustment No. 9 - Bad Debt Expense*

2 **Q. Did Staff review the Company's rebuttal testimony concerning bad debt expense?**

3 A. Yes. The Company proposes that Staff include in operating expenses test year related
4 write-offs that occurred after the test year.

5
6 **Q. Does Staff agree with the Company?**

7 A. Yes.

8
9 **Q. Does Staff agree with the Company's proposed amount?**

10 A. Staff does not know. Staff is awaiting documentation to support the Company's proposed
11 amount.

12
13 **Q. Will Staff make its recommendation at or before the hearing date?**

14 A. Yes.

15
16 *Rate Case Expense*

17 **Q. Did Staff review the Company's rebuttal testimony concerning rate case expense?**

18 A. Yes. The Company proposes to increase rate case expense by \$16,667 to reflect the
19 additional cost of "negotiating the settlement agreement with the BHOA and the costs that
20 have been and will be incurred in taking steps necessary to support BMSC's request for
21 rate relief"

22
23 **Q. Does Staff agree with the Company?**

24 A. Yes.

25

1 **Q. Does Staff agree with the Company's proposed amount?**

2 A. Staff does not know. Staff must review the documentation in support of the additional
3 rate case expense.

4

5 **Q. Will Staff make its recommendation at or before the hearing date?**

6 A. Yes.

7

8 *Operating Income Adjustment No. 13 - Bonuses, Meals, and Other Expenses*

9 **Q. Has Staff reviewed the Company's rebuttal testimony concerning bonuses?**

10 A. Yes.

11

12 **Q. Does Staff agree with the Company?**

13 A. No.

14

15 **Q. How does including bonuses in operating expenses harm customers?**

16 A. Including bonuses in operating expenses harms customers because customers would be
17 required to pay for an expense that is not needed in the provision of service. Further, in
18 the event that the bonuses are not paid at all or are paid at a lesser amount, then the rates
19 that the customers pay for this unneeded cost would flow directly to the shareholders who
20 would be unfairly enriched.

21

22 **Q. Does the Company's claimed benefits outweigh the detriment to ratepayers?**

23 A. No.

24

1 **Q. What is Staff's recommendation concerning bonuses, meals, and other expenses?**

2 A. Staff recommends decreasing contractual services-other account by \$14,945 as shown on
3 page 2 of Surrebuttal Schedule CSB-12.
4

5 *Contractual Services –Other, Aerotek \$42,200 Invoice*

6 **Q. Did Staff review the Company's Rebuttal Testimony concerning Contractual**
7 **Services – Aerotek \$42,200 Invoice?**

8 A. Yes. The Company asserts that it incorrectly recorded \$42,200 in expenses that were
9 incurred for Black Mountain on the books of its affiliate, Litchfield Park Service
10 Company ("LPSCO"). The Company has provided additional evidence to support that the
11 expense was incurred for Black Mountain.
12

13 **Q. Do both LPSCO and Black Mountain have permanent rate applications currently**
14 **before the Commission?**

15 A. Yes, Black Mountain is the instant case and LPSCO's permanent rate applications are
16 filed under docket numbers SW-01427A-09-0104 and SW-01428A-09-0103.
17

18 **Q. What are the test years of the two permanent rate applications?**

19 A. The test year for Black Mountain is the period July 1, 2007, to June 30, 2008. The test
20 year for LPSCO is the period October 1, 2007, to September 30, 2008.
21

22 **Q. What are the dates that the \$42,200 in costs was incurred?**

23 A. The costs were incurred during the period February 2, 2008, to June 28, 2008
24

1 **Q. Did the Company propose to remove the \$42,200 amount from the operating**
2 **expenses of LPSCO?**

3 A. No, the Company has not proposed to remove the \$42,200 amount from the operating
4 expenses of LPSCO. It has only proposed that the \$42,200 be added to the operating
5 expenses of Black Mountain. Including the same expense for both companies would
6 result in a double recovery for the Company.

7
8 **Q. What is Staff's recommendation concerning the Contractual Services – Aerotek**
9 **\$42,200 Invoice?**

10 A. Staff continues to recommend disallowance of \$42,200 because the amount is already
11 included in the operating expenses of an affiliate that is currently before the Commission
12 for a rate increase.

13
14 *Central Fixed Office Costs (Corporate Expense Allocation)*

15 **Q. How does the Algonquin Power Income Fund (“Fund” or “APIF”) produce income**
16 **for its shareholders?**

17 A. The Fund, according to its 2008 annual report, produces earnings for its shareholders
18 through a diversified portfolio of renewable energy and utility assets.

19
20 **Q. What was the APIF's business strategy?**

21 A. The Fund's 2008 annual report states the following concerning its business strategy:

22
23 *Algonquin's business strategy is to maximize long term unitholder*
24 *value by strengthening its position as a strong renewable energy*
25 *and infrastructure company. **The Company is focused on growth***
26 ***in cash flow and earnings in the business segments in which it***
27 ***operates.** (emphasis added)*
28

1 **Q. What was the APIF's income for 2008?**

2 A. The APIF generated \$57 million in income before taxes according to its 2008 audited
3 financial statements.

4
5 **Q. Does Staff agree with the Company's statement that "APIF incurs the central office
6 cost for the benefit of its subsidiary businesses" and "but for the subsidiary
7 businesses, APIF would not have central offices costs" (Bourassa Rebuttal, page
8 19, lines 16 through 21)?**

9 A. No, Staff does not. The APIF is an unregulated for-profit business that incurs costs
10 primarily for the benefit of its shareholders. Making a profit is the ultimate reason any
11 for-profit company incurs expenses. The Fund is focused on "*growth in cash flow and
12 earnings*" as evidenced from its business strategy. Since shareholders seek a profit and
13 the APIF incurs expenses (e.g. central office costs) in order to generate that profit, then it
14 is obvious that the central office costs are incurred primarily for the benefit of the
15 shareholders rather than for Black Mountain as the Company indicates. The central office
16 costs would have been incurred even if the Fund did not own Black Mountain because the
17 central office costs were incurred to make a profit for the shareholders and not to operate
18 Black Mountain. The benefit to Black Mountain is only incidental.

19
20 **Tax Preparation Costs**

21 **Q. Does Staff agree with the Company's claim that Staff's provision for tax preparation
22 is inadequate on a stand-alone basis?**

23 A. No, Staff does not. An efficiently managed stand-alone utility could incur little or no
24 additional cost for tax preparation. Most state and federal income tax returns are
25 completed and filed electronically with user-friendly computer software applications
26 designed specifically for income taxes. An efficiently managed utility could hire someone

1 with proven proficiencies in both accounting and tax return preparation. This employee
2 would possess the requisite knowledge to enter the relevant information from the financial
3 statements into the user-friendly tax software and electronically prepare and file the
4 income tax return at little or no additional cost to the utility.

5
6 **Q. What did Staff find during its review of the Company's documentation to support**
7 **the Central Office tax allocation?**

8 A. Staff found that large costs were incurred for the research of complex tax issues regarding
9 the APIF's many holdings. Since these costs relate directly to the tax complexities of
10 APIF, rather than based on the cost causation principle, the APIF should pay the major
11 part of the tax and the remaining part should allocated to the subsidiaries.

12
13 Audit Costs

14 **Q. Does Staff agree with the Company's claim that Staff's provision for audit services is**
15 **inadequate on a stand-alone basis?**

16 A. No, Staff does not.

17
18 **Q. Are all stand-alone utilities required to have an audit?**

19 A. No.

20
21 **Q. Why does the APIF have an annual audit?**

22 A. Its lenders require it to have an audit.
23

APIF Management and Trustee Fees

Q. Does Staff agree with the Company's claim that Staff's provision for management fees from the central office is inadequate on a stand-alone basis?

A. No, Staff does not. The managers at the central office are directly responsible for the management of the income fund and not Black Mountain. The Company could not provide time sheets or time studies showing that the managers from the central office spent time directly working for Black Mountain. Therefore, to add costs for the management fees from the central offices would be duplicative of the management fees that are already included in Black Mountain's operating expenses. Further, based on the cost causation principle, the management fees should be allocated to the APIF because they are directly attributable to the APIF.

APIF Other Professional Services Fees

Q. Does Staff agree with the Company's claim that Staff's provision for other types of fees such as professional services fees from the central office is inadequate on a stand-alone basis?

A. No, Staff does not. Staff reviewed the invoices in support of the fees and found that the test year invoices related to special software for the APIF and not to the ERP and payroll system as the Company claims.

Central Office Fixed Cost Increase

Q. Does Staff agree with the Company that the amount of central office costs should be increase from \$3.95 million to \$4.25 million?

A. No, Staff does not. Some of the invoices provided appeared to be internally generated invoices from one affiliate to another affiliate.

1 **Q. Do transactions with affiliates require greater scrutiny than transactions with non-**
2 **affiliates?**

3 A. Yes. The central office costs were incurred by the parent company which is an affiliate.
4 These transactions are not at arm's length. Transactions with non-affiliates are generally
5 considered to be reasonable when a regulated utility can provide adequate evidence that it
6 incurred an expense. In contrast, costs incurred with affiliates require a greater burden of
7 evidence than just the mere showing that the costs were incurred.
8

9 **Q. How can rate payers be harmed when companies do not provide adequate evidence?**

10 A. Ratepayers can be harmed because costs from the unregulated business can be shifted to
11 the regulated utility or reported at an inflated amount.
12

13 *\$50,302 Algonquin Water Services Increase*

14 **Q. Did Staff review the Company's rebuttal testimony concerning \$50,302 affiliate**
15 **increase?**

16 A. Yes. The Company proposes to annualize the cost of contract workers employed by its
17 affiliate, Algonquin Water Services ("AWS").
18

19 **Q. Does Staff agree with the Company?**

20 A. No, Staff does not.
21

22 **Q. Does Black Mountain have employees?**

23 A. No, it does not. It employs contract personnel through its affiliate AWS.
24

1 **Q. Can the AWS employees work for any of the Algonquin's five other regulated**
2 **Arizona utilities?**

3 A. Yes. AWS employees work on all of Algonquin's five other regulated Arizona utilities.
4

5 **Q. How much did the AWS fee increase from 2007 to 2008**

6 A. The affiliate, AWS, increased the management fees it charged to Black Mountain by over
7 \$110,000 (or 28 percent), from \$392,538 in 2007 to \$502,741 in 2008. In addition to the
8 28 percent increase, the Company is proposing to increase AWS fees by an additional
9 \$50,302.
10

11 **Q. Did the Company provide any evidence showing that it was having problems**
12 **providing service because of a lack of employees?**

13 A. No, it did not.
14

15 **Q. Is the \$50,302 proposed by the Company based on actual data?**

16 A. No, it is not; since the AWS employees can work on any one of the seven companies. It is
17 based on speculation.
18

19 **Q. What is Staff's recommendation concerning this increase?**

20 A. Staff continues to recommend disallowance because the affiliate contract employees are
21 not directly employed by Black Mountain, can work for any one of its five other utilities,
22 and the Company's adjustment to increase costs is based upon speculative data.
23

1 *Transportation Expense*

2 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the transportation**
3 **expense?**

4 A. Yes.

5
6 **Q. Does Staff agree with the Company?**

7 A. No, Staff does not because during the course of this audit, Staff noted several significant
8 problems with the Company's and its affiliates' record keeping.

9
10 **Q. What are the record keeping problems that Staff noted?**

11 A. Staff noted problems with record keeping such as the general ledger that was out of
12 balance by \$84,000; some accounts in the general ledger that should have a positive
13 balance have a negative balance; the truck lease that belongs to Gold Canyon¹ is included
14 in the operating expenses of Black Mountain; the \$42,200 expense incurred for Black
15 Mountain is included in the operating expenses of LPSCO; and the odor control unit that
16 is used by Black Mountain is included in the plant of LPSCO.

17
18 **Q. How could these record keeping problems negatively impact customers?**

19 A. For example, the full cost of the truck lease could be put in the operating expense of Black
20 Mountain in the instant rate proceeding. The truck could later be re-assigned to Gold
21 Canyon, who then, files a permanent rate increase application and the full cost of the truck
22 lease could be included in the operating expenses of Gold Canyon. This would result in
23 the customers of two different companies paying for the same truck lease causing double
24 recovery for the parent company. Maintaining logs would help to prevent this type of
25 problem.

¹ Gold Canyon has the legal responsibility to pay because it signed the truck lease.

1 **Q. How could maintaining logs help to prevent the problem?**

2 A. The logs would show the history of the vehicle. This would allow Staff to review the data
3 and make an equitable allocation.
4

5 **Q. Is maintaining mileage logs uncommon?**

6 A. No, it is not. The state of Arizona requires employees to sign out vehicles by showing a
7 valid driver's license, and logging the dates and purpose of travel. Also, there is a log in
8 the vehicle itself which the driver must write the starting and ending mileage. Further, the
9 Internal Revenue Service requires mileage logs in order to claim transportation expense.
10

11 **Q. What is Staff's recommendation concerning transportation expense?**

12 A. Staff continues to recommend allocating half the cost to the affiliate.
13

14 *Depreciation Expense*

15 **Q. What adjustments did Staff make to depreciation expense?**

16 A. Staff adjusted depreciation expense to reflect changes made to plant.
17

18 **Q. What is Staff's recommendation for depreciation expense?**

19 A. Staff's recommends increasing depreciation expense by \$9,214, from \$224,818 to
20 \$234,035 expense as shown on Surrebuttal Schedules CSB-12, page 2 and CSB-26.
21

22 *Property Tax Expense*

23 **Q. Did Staff review the Company's rebuttal testimony concerning property tax
24 expense?**

25 A. Yes. The Company claims that Staff used an incorrect assessment ratio in the property tax
26 expense calculation.

1 **Q. Does Staff agree with the Company?**

2 A. Yes.

3
4 **Q. What is Staff's recommendation for property tax expense?**

5 A. Staff's recommends decreasing property tax by \$5,179, from \$32,414 to \$27,235 as shown
6 on Surrebuttal Schedules CSB-11 and CSB-28.

7
8 *Income Tax Expense*

9 **Q. What adjustment did Staff make to income tax expense?**

10 A. Staff removed the cost of the Scottsdale capacity lease and reflected Staff's remaining
11 Surrebuttal operating expenses.

12
13 **Q. What is Staff's recommendation for income tax expense?**

14 A. Staff recommends increasing income tax expense by \$29,574, from \$7,760 to \$37,334 as
15 shown on Surrebuttal Schedules CSB-11 and CSB-29.

16
17 **PURCHASED WASTEWATER TREATMENT ADJUSTOR MECHANISM**

18 **Q. Has Staff reviewed the Company's rebuttal testimony regarding the Purchased**
19 **Wastewater Treatment Adjustor Mechanism ("PWWAM")?**

20 A. Yes.

21
22 **Q. Has Staff's position concerning the PWWAM changed?**

23 A. No.

24
25 **Q. What is Staff's recommendation?**

26 A. Staff continues to recommend denial of the Company proposed PWWAM.

RATE DESIGN

Surrebuttal Rates

Q. Has Staff recommended revised rates consistent with its recommended changes to the revenue requirement?

A. Yes. Staff's revised rates are shown on Surrebuttal Schedule CSB-30.

Special Rate Classes

Q. Has Staff reviewed the Company's rebuttal testimony concerning the special rate classes for certain commercial customers?

A. Yes.

Q. Does Staff agree with the Company?

A. No, the Company did not conduct a cost of service study. The interests of all the stakeholders were thoroughly discussed in the proceeding in which the Commission originally authorized the special rate classes. The Commission has approved the special rate classes in at least two rate proceedings.

Q. Would implementing the Company proposed rate design result in a steep increase to the special rate classes?

A. Yes. The rates would increase by approximately 100 percent for most of the special rate customers.

Q. What is Staff's recommendation concerning the special rate classes?

A. Staff recommends continuation of the special rate classes.

1 *Effluent Rate*

2 **Q. Has Staff reviewed the Company's rebuttal testimony concerning the effluent rate?**

3 A. Yes. The Company states that "Staff increases the effluent rate by over 30 percent, which
4 is in conflict with the effluent delivery agreement with the Boulder's Resort . . ."

5
6 **Q. Does Staff agree with the Company that Staff's recommended rate needs to be
7 revised?**

8 A. Yes. Staff recommends adopting the Company proposed effluent rate, as this rate does
9 not conflict with the terms of the effluent delivery agreement.

10
11 **Q. What is Staff's recommendation concerning the effluent rate?**

12 A. Staff recommends an effluent rate of \$0.46051 per thousand gallons as shown on Staff's
13 Surrebuttal Schedule CSB-30 and the Company's Rebuttal Schedule H-3, page 1.

14
15 **Q. Does this conclude your Direct Testimony?**

16 A. Yes, it does.

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-1

REVENUE REQUIREMENT

<u>LINE NO.</u>	<u>DESCRIPTION</u>	(A) COMPANY FAIR <u>VALUE</u>	(B) STAFF FAIR <u>VALUE</u>
1	Adjusted Rate Base	\$ 3,723,245	\$ 3,365,416
2	Adjusted Operating Income (Loss)	\$ (84,484)	\$ (4,761)
3	Current Rate of Return (L2 / L1)	-2.27%	-0.14%
4	Required Rate of Return	12.80%	9.40%
5	Required Operating Income (L4 * L1)	\$ 476,575	\$ 316,349
6	Operating Income Deficiency (L5 - L2)	\$ 561,059	\$ 321,110
7	Gross Revenue Conversion Factor	1.6286	1.6939
8	Required Revenue Increase (L7 * L6)	\$ 913,780	\$ 543,935
9	Adjusted Test Year Revenue	\$ 1,580,170	\$ 1,580,170
10	Proposed Annual Revenue (L8 + L9)	\$ 2,493,950	\$ 2,124,105
11	Required Increase in Revenue (%)	57.83%	34.42%

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)
<u>Calculation of Gross Revenue Conversion Factor:</u>					
1	Revenue	100.0000%			
2	Uncollectible Factor (Line 11)	0.0000%			
3	Revenues (L1 - L2)	100.0000%			
4	Combined Federal and State Income Tax and Property Tax Rate (Line 5)	40.9653%			
5	Subtotal (L3 - L4)	59.0347%			
6	Revenue Conversion Factor (L1 / L5)	1.693919			
<u>Calculation of Uncollectible Factor:</u>					
7	Unity	100.0000%			
8	Combined Federal and State Tax Rate (Line 23)	40.6206%			
9	One Minus Combined Income Tax Rate (L7 - L8)	59.3794%			
10	Uncollectible Rate	0.0000%			
11	Uncollectible Factor (L9 * L10)	0.0000%			
<u>Calculation of Effective Tax Rate:</u>					
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%			
13	Arizona State Income Tax Rate	6.9680%			
14	Federal Taxable Income (L12 - L13)	93.0320%			
15	Applicable Federal Income Tax Rate (Line 55)	36.1732%			
16	Effective Federal Income Tax Rate (L14 x L15)	33.6526%			
17	Combined Federal and State Income Tax Rate (L13 + L16)		40.6206%		
<u>Calculation of Effective Property Tax Factor</u>					
18	Unity	100.0000%			
19	Combined Federal and State Income Tax Rate (L17)	40.6206%			
20	One Minus Combined Income Tax Rate (L18-L19)	59.3794%			
21	Property Tax Factor (CSB-16, L21)	0.5804%			
22	Effective Property Tax Factor (L20*L21)		0.3447%		
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			40.9653%	
24	Required Operating Income (Schedule CSB-1, Line 5)	\$ 316,349			
25	Adjusted Test Year Operating Income (Loss) (Schedule CSB-11, Line 3)	(4,761)			
26	Required Increase in Operating Income (L24 - L25)		\$ 321,110		
27	Income Taxes on Recommended Revenue (Col. [E], L52)	\$ 257,001			
28	Income Taxes on Test Year Revenue (Col. [B], L52)	37,334			
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		219,667		
30	Recommended Revenue Requirement (Schedule CSB-1, Line 10)	\$ 2,124,105			
31	Uncollectible Rate (Line 10)	0.0000%			
32	Uncollectible Expense on Recommended Revenue (L30*L31)	\$ -			
33	Adjusted Test Year Uncollectible Expense	\$ -			
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32-L33)				
35	Property Tax with Recommended Revenue (CSB-16, Col B, L16)	\$ 30,392			
36	Property Tax on Test Year Revenue (CSB-16, Col A, L16)	27,235			
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		3,157		
38	Total Required Increase in Revenue (L26 + L29 + L34 + L37)		\$ 543,934		
<u>Calculation of Income Tax:</u>					
39	Revenue (Schedule CSB-11, Col. [C], Line 5 & Sch. CSB-1, Col. [D] Li	Test Year \$ 1,580,170	Staff Recommended \$ 543,934	\$ 2,124,104	
40	Operating Expenses Excluding Income Taxes	\$ 1,383,075	\$ 3,157	\$ 1,386,232	
41	Synchronized Interest (L56)	\$ 72,047		\$ 72,047	
42	Arizona Taxable Income (L39 - L40 - L41)	\$ 125,048		\$ 665,825	
43	Arizona State Income Tax Rate	6.9680%		6.9680%	
44	Arizona Income Tax (L42 x L43)	\$ 8,713		\$ 46,395	
45	Federal Taxable Income (L42 - L44)	\$ 116,335		\$ 619,430	
46	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500		\$ 7,500	
47	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250		\$ 6,250	
48	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500		\$ 8,500	
49	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 6,371		\$ 91,650	
50	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -		\$ 96,706	
51	Total Federal Income Tax	\$ 28,621		\$ 210,606	
52	Combined Federal and State Income Tax (L44 + L51)	\$ 37,334		\$ 257,001	
53	Applicable Federal Income Tax Rate [Col. [E], L51 - Col. [B], L51] / [Col. [E], L45 - Col. [B], L45]			36.1732%	
<u>Calculation of Interest Synchronization:</u>					
54	Rate Base (Schedule CSB-3, Col. (C), Line 17	\$ 3,602,336			
55	Weighted Average Cost of Debt (Schedule CSB-17, Col. [F], L1 + L2)	2.0000%			
56	Synchronized Interest (L45 X L46)	\$ 72,047			

RATE BASE - ORIGINAL COST

LINE NO.		(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	Adj. No.	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 11,357,735	\$ 250,184	1,2	\$ 11,607,919
2	Less: Accumulated Depreciation	5,625,025	89,118	3	5,714,143
3	Net Plant in Service	<u>\$ 5,732,710</u>	<u>\$ 161,066</u>		<u>\$ 5,893,776</u>
	<u>LESS:</u>				
4	Contributions in Aid of Construction (CIAC)	\$ 5,232,139	\$ -		\$ 5,232,139
5	Less: Accumulated Amortization	4,214,384	-		\$ 4,214,384
6	Net CIAC	<u>1,017,755</u>	<u>-</u>		<u>\$ 1,017,755</u>
7	Advances in Aid of Construction (AIAC)	1,457,009	254,251	4	1,711,260
8	Customer Deposits	94,290	-		94,290
9	Deferred Income Tax Credits	(170,554)	170,554	5	-
	<u>ADD:</u>				
9	Deferred Regulatory Assets	389,035	-		389,035
10	Cash Working Capital	-	(101,242)	6	(101,242)
11	Prepayments	-	7,152	6	7,152
12	Original Cost Rate Base	<u>\$ 3,723,245</u>	<u>\$ (357,829)</u>		<u>\$ 3,365,416</u>

References:

Column (A), Company Schedule B-1
Column (B): Schedule MEM-4
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] ADJ #1 Unrecorded Retirement & Addition Ref. Sch CSB-5	[C] ADJ #2 Expensed Plant Ref. Sch CSB-6	[D] ADJ #3 Accumulated Depreciation Ref. Sch CSB-7	[E] ADJ #4 AIAC Ref. Sch CSB-8	[F] ADJ #5 Accumulated Deferred Income Taxes Ref. Sch CSB-9	[G] ADJ #6 Working Capital Ref. Sch CSB-10	[H] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>										
1	351	Organization	-	-	-	-	-	-	-	-
2	352	Franchises	-	-	-	-	-	-	-	-
3	353	Land and Land Rights	461,300	-	-	-	-	-	-	461,300
4	354	Structures and Improvements	2,557,920	-	2,300	-	-	-	-	2,560,220
5	355	Power Generation Equipment	-	-	-	-	-	-	-	-
6	356	Collection Services - Force	706,292	-	1,600	-	-	-	-	707,892
7	360	Collection Services - Gravity	4,284,948	-	-	-	-	-	-	4,284,948
8	361	Special Collecting Structures	-	-	-	-	-	-	-	-
9	362	Services to Customers	198,723	-	-	-	-	-	-	198,723
10	363	Flow Measuring Devices	31,512	-	-	-	-	-	-	31,512
11	364	Flow Measuring Installations	179,622	-	-	-	-	-	-	179,622
12	365	Receiving Wells	690,628	-	-	-	-	-	-	690,628
13	370	Effluent Pumping Equipment	654,844	241,043	1,200	-	-	-	-	932,871
14	371	Treatment and Disposal Equipment	143,578	-	2,803	-	-	-	-	146,381
15	380	Plant Sewers	123,289	-	1,238	-	-	-	-	124,527
16	381	Outfall Sewer Lines	-	-	-	-	-	-	-	-
17	382	Other Plant & Misc. Equipment	939,432	-	-	-	-	-	-	939,432
18	389	Office Furniture & Equipment	224,587	-	-	-	-	-	-	224,587
19	390	Transportation Equipment	107,367	-	-	-	-	-	-	107,367
20	391	Tools, Shop & Garage Equipment	5,754	-	-	-	-	-	-	5,754
21	393	Laboratory Equipment	7,488	-	-	-	-	-	-	7,488
22	394	Power Operated Equipment	-	-	-	-	-	-	-	-
23	395	Communication Equipment	-	-	-	-	-	-	-	-
24	396	Other Tangible Plant	40,451	-	-	-	-	-	-	40,451
25	398		-	-	-	-	-	-	-	-
26			-	-	-	-	-	-	-	-
27			-	-	-	-	-	-	-	-
28		Total Plant in Service	\$ 11,357,735	\$ 241,043	\$ 9,141	\$ -	\$ -	\$ -	\$ -	\$ 11,607,919
29		Less: Accumulated Depreciation	5,625,025	-	-	89,118	-	-	-	5,714,143
30			-	-	-	-	-	-	-	-
31		Net Plant in Service (L59 - L 60)	\$ 5,732,710	\$ 241,043	\$ 9,141	\$ (89,118)	\$ -	\$ -	\$ -	\$ 5,893,776
32			-	-	-	-	-	-	-	-
33		<u>LESS:</u>								
34		Contributions in Aid of Construction (CIAC)	-	-	-	-	-	-	-	-
35		Less: Accumulated Amortization	5,232,139	-	-	-	-	-	-	5,232,139
36		Net CIAC (L25 - L26)	4,214,384	-	-	-	-	-	-	4,214,384
37		Advances in Aid of Construction (AIAC)	1,017,755	-	-	-	-	-	-	1,017,755
38		Customer Deposits	1,457,009	-	-	-	254,251	-	-	1,711,260
39		Deferred Income Taxes	94,290	-	-	-	-	-	-	94,290
40			(170,554)	-	-	-	-	170,554	-	-
41			-	-	-	-	-	-	-	-
42		<u>ADD:</u>								
43		Deferred Reg Asset - Unamortized Balance of Scottsdale Treatment	389,035	-	-	-	-	-	-	389,035
44		Cash Working Capital	-	-	-	-	-	-	(101,242)	(101,242)
45		Prepayments	-	-	-	-	-	-	7,152	7,152
46		Original Cost Rate Base	\$ 3,723,245	\$ 241,043	\$ 9,141	\$ (89,118)	\$ (254,251)	\$ (170,554)	\$ (94,090)	\$ 3,365,416

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-5

**RATE BASE ADJUSTMENT NO. 1 - UNRECORDED PLANT RETIREMENT
AND PLANT ADDITION**

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		ADJUSTMENTS		STAFF AS ADJUSTED Col A - Col B	
1	Account 370 - Receiving Wells	\$	690,628	\$	-	\$	690,628
2	Old Trade Center Lift Station		-		(13,208)		(13,208)
3	New Trade Center Lift Station		-	\$	254,251		254,251
4		\$	690,628	\$	241,043	\$	931,671

References:

Column A: Company Schedule B-2, Page 3

Column B: Testimony, CSB, Company Data Request Responses DH 2.4 and 2.5

Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 2 - EXPENSED PLANT

			[A]	[B]	[C]
LINE NO.	Plant Account Number	Description	COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED (Col A + Col B)
1	354	Structures and Improvemnts	\$ 461,300	\$ 2,300	\$ 463,600
2	360	Collection Services, Force	\$ 706,292	\$ 1,600	\$ 707,892
3	370	Receiving Wells	\$ 690,628	\$ 1,200	\$ 691,828
4	371	Effluent Pumping Equip	\$ 654,844	\$ 2,803	\$ 657,647
5	381	Plant Sewers	\$ 123,289	\$ 1,238	\$ 124,527
6		Total	\$ 2,636,353	\$ 9,141	\$ 2,645,494
7					
8					
9	FROM CONTRACTUAL SERVICES, LEGAL & ENGINEERING EXPENSE (MEM 1.55)				
10	Acct. No.	Vendor Name	Description	Amount	
11	354 - Structures & Improv	Consulting Land Surveyors	Locate existing and set new boundaries	\$ 1,500.00	
12					
13					
14	FROM CONTRACTUAL SERVICES, OTHER EXPENSE (MEM 1.55)				
15	Acct. No.	Vendor Name	Description	Amount	
16	354 - Structures & Improv	Consulting Land Surveyors	Locate existing and set new boundaries	\$ 800.00	
17					
18					
19	360-Collection Svcs, Force	ADEQ Approval to Construct	Certificate	\$ 1,600.00	
20	370-Receiving Wells	ADEQ Approval to Construct	Certificate	\$ 1,200.00	
21			Subtotal	\$ 2,800.00	
22					
23	371-Effluent Pumping Plant	Keller Equipment Company	Install submersible Pumps	\$ 1,212.00	
24	371-Effluent Pumping Plant	Keller Equipment Company	Set two pumps; pull one	\$ 1,591.25	
25			Subtotal	\$ 2,803.25	
26					
27					
28	381-Plant Sewers	KSK Electric	New cables, sand filters	\$ 1,237.72	
29					
30			Total for Contractual Services, Other	\$ 7,640.97	
31					
32			Grand Total	\$ 9,140.97	

References:

Column A: Company Schedule B-2, Page 3
Column B: Testimony, CSB, Company Data Request Responses MEM 1.55
Column C: Column [A] + Column [B]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-7
Page 1 of 5

RATE BASE ADJUSTMENT NO. 3 - ACCUMULATED DEPRECIATION

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Depreciation	\$ 5,625,025	\$ 89,118	\$ 5,714,143

References:

Column A: Company Schedule B-1, Page 1
Column B: Testimony, CSB; Schedule CSB-7, Page 5 of 5
Column C: Column [A] + Column [B]

PLANT AND ACCUMULATED DEPRECIATION
With Staff Recommended Plant Adjustments

	Staff 31-Dec-04 Original Cost	Staff 31-Dec-04 Accumulated Depreciation	Depreciation Rates		2005 Additions	2005 Retirements	Depreciation Expense	2005 Total Cost	2005 Accumulated Depreciation
			Before Dec. 69164	After Dec. 69164					
351 Organization Cost	\$0	\$0	0.00%	0.00%	\$0	\$0	\$0	\$0	\$0
352 Franchise Cost	\$0	\$0	0.00%	0.00%	\$0	\$0	\$0	\$0	\$0
353 Land & Land Rights	\$461,300	\$0	0.00%	0.00%	\$0	\$0	\$0	461,300	0
354 Structures & Improvements	\$1,239,905	\$888,015	5.00%	3.33%	\$54,645	0	\$63,361	1,294,549	951,376
355 Power Generation Equip	\$0	\$706	5.00%	5.00%	\$0	0	(\$706)	0	0
360 Collection Sewers, Force	\$568,413	\$154,483	5.00%	2.00%	\$89,562	0	\$30,660	657,976	185,143
361 Collection Sewers, Gravity	\$3,614,544	\$2,488,740	5.00%	2.00%	\$275,691	0	\$187,619	3,890,235	2,676,359
362 Special Collection Structures	\$0	\$0	5.00%	2.00%	\$0	0	\$0	0	0
363 Services	\$157,218	\$128,612	5.00%	2.00%	\$19,337	0	\$8,344	176,555	136,956
364 Flow Measuring Devices	\$39,829	\$23,004	5.00%	10.00%	(\$8,135)	0	\$1,788	31,694	24,792
365 Flow Measuring Installations	\$156,204	\$3,959	5.00%	10.00%	\$19,404	0	\$8,295	175,608	12,254
370 Receiving Wells	\$696,137	\$199,051	5.00%	3.33%	\$0	0	\$34,807	696,137	233,858
371 Effluent Pumping Equipment	\$453,558	\$244,706	5.00%	12.50%	\$11,119	0	\$22,956	464,677	267,662
380 Treatment & Disposal Equip	\$0	\$0	5.00%	5.00%	\$6,288	0	\$157	6,288	157
381 Plant Sewers	\$123,289	\$84,017	5.00%	5.00%	\$0	0	\$6,164	123,289	90,181
382 Outfall Sewer Lines	\$0	\$0	5.00%	3.33%	\$0	0	\$0	0	0
389 Other Plant & Misc. Equip	\$804,839	\$80,678	5.00%	6.67%	\$6,221	0	\$40,397	811,059	121,075
390 Office Furniture & Fixt	\$220,360	\$27,165	5.00%	6.67%	\$1,465	0	\$11,055	221,825	38,220
391 Transportation Equipment	\$87,811	\$7,642	5.00%	20.00%	\$0	0	\$4,391	87,811	12,032
393 Tools, Shop, & Garage Equip	\$0	\$0	5.00%	5.00%	\$0	0	\$0	0	0
394 Laboratory Equipment	\$7,280	\$352	5.00%	10.00%	\$209	0	\$369	7,488	721
395 Power Operated Equipment	\$0	\$0	5.00%	5.00%	\$0	0	\$0	0	0
396 Communication Equipment	\$0	\$0	5.00%	10.00%	\$0	0	\$0	0	0
398 Other Tangible Plant	\$0	\$0	5.00%	10.00%	\$0	0	\$0	0	0
2004/2005 Totals	\$8,630,686	\$4,331,129			\$475,805	\$0	\$419,658	\$9,106,491	\$4,750,787

PLANT AND ACCUMULATED DEPRECIATION
With Staff Recommended Plant Adjustments

	2006 Additions Cost	2006 Retirements		Fully Depreciated	2006		2006 Total Cost	2006 Accumulated		2006 Net Book Value
		Cost	Depreciation		Depr. Expense	Depreciation				
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
352 Franchise Cost	0	0	0	0	0	0	0	0	0	
353 Land & Land Rights	0	0	0	0	0	461,300	0	0	461,300	
354 Structures & Improvements	3,625	0	0	0	63,014	1,298,174	1,014,390	283,784	283,784	
355 Power Generation Equip	0	0	0	0	0	0	0	0	0	
360 Collection Sewers, Force	3,592	0	0	0	31,339	661,568	216,482	445,086	445,086	
361 Collection Sewers, Gravity	89,849	0	0	0	186,920	3,980,084	2,863,280	1,116,804	1,116,804	
362 Special Collection Structures	0	0	0	0	0	0	0	0	0	
363 Services	10,429	0	0	0	8,634	186,984	145,590	41,394	41,394	
364 Flow Measuring Devices	(182)	0	0	0	1,712	31,512	26,504	5,008	5,008	
365 Flow Measuring Installations	3,740	0	0	0	9,613	179,348	21,868	157,480	157,480	
370 Receiving Wells	2,141	0	0	0	33,890	698,278	267,748	430,530	430,530	
371 Effluent Pumping Equipment	44,676	0	0	0	27,395	509,353	295,056	214,297	214,297	
380 Treatment & Disposal Equip	12,184	0	0	0	619	18,472	776	17,696	17,696	
381 Plant Sewers	0	0	0	0	6,164	123,289	96,346	26,943	26,943	
382 Outfall Sewer Lines	0	0	0	0	0	0	0	0	0	
389 Other Plant & Misc. Equip	52,315	0	0	0	43,026	863,374	164,101	699,273	699,273	
390 Office Furniture & Fixtures	0	0	0	0	11,400	221,825	49,620	172,205	172,205	
391 Transportation Equip	0	0	0	0	5,488	87,811	17,520	70,291	70,291	
393 Tools, Shop, & Garage Equip	0	0	0	0	0	0	0	0	0	
394 Laboratory Equipment	0	0	0	0	406	7,488	1,126	6,362	6,362	
395 Power Operated Equip	0	0	0	0	0	0	0	0	0	
396 Communication Equipment	0	0	0	0	0	0	0	0	0	
398 Other Tangible Plant	0	0	0	0	0	0	0	0	0	
2006 Totals	\$222,369	\$0	\$0	\$0	\$429,620	\$9,328,860	\$5,180,408	\$4,148,452	\$4,148,452	

PLANT AND ACCUMULATED DEPRECIATION
With Staff Recommended Plant Adjustments

	2007 Additions		2007 Retirements		Fully Depreciated		2007 Depreciation		2007 Total Cost		2007 Accumulated Depreciation		2007 Net Book Value	
	Cost		Cost		Cost		Cost		Cost		Cost		Cost	
351 Organization Cost	\$0		\$0		\$0		\$0		\$0		\$0		\$0	
352 Franchise Cost	0		0		0		0		0		0		0	
353 Land & Land Rights	0		0		0		0		461,300		0		461,300	
354 Structures & Improvements	(18,852)		0		0		42,915		1,279,322		1,057,306		222,016	
355 Power Generation Equip	0		0		0		0		0		0		0	
360 Collection Sewers, Force	32,466		0		0		13,556		694,034		230,038		463,996	
361 Collection Sewers, Gravity	178,995		0		0		81,392		4,159,079		2,944,671		1,214,408	
362 Special Collection Structures	0		0		0		0		0		0		0	
363 Services	0		0		0		3,740		186,984		149,330		37,654	
364 Flow Measuring Devices	0		0		0		3,151		31,512		29,655		1,857	
365 Flow Measuring Installations	0		0		0		17,935		179,348		39,802		139,546	
370 Receiving Wells	0		0		0		23,253		698,278		291,001		407,277	
371 Effluent Pumping Equipment	69,428		0		0		68,008		578,781		363,065		215,716	
380 Treatment & Disposal Equip	4,387		0		0		1,033		22,859		1,809		21,050	
381 Plant Sewers	0		0		0		6,164		123,289		102,510		20,779	
382 Outfall Sewer Lines	0		0		0		0		0		0		0	
389 Other Plant & Misc. Equip	(158)		0		0		57,582		863,216		221,683		641,533	
390 Office Furniture & Fixt	2,763		0		0		14,888		224,588		64,507		160,081	
391 Transportation Equip	19,556		0		0		19,518		107,367		37,038		70,329	
393 Tools, Shop, & Garage Equip	3,493		0		0		87		3,493		87		3,406	
394 Laboratory Equipment	0		0		0		749		7,488		1,875		5,613	
395 Power Operated Equip	0		0		0		0		0		0		0	
396 Communication Equipment	0		0		0		0		0		0		0	
398 Other Tangible Plant	0		0		0		0		0		0		0	
2007 Totals	\$292,078		\$0		\$0		\$353,971		\$9,620,938		\$5,534,379		\$4,086,559	

PLANT AND ACCUMULATED DEPRECIATION
With Staff Recommended Plant Adjustments

	2008 Additions Cost	Six Months						2008 Net Book Value
		2008 Retirements		Fully Depreciated	2008		2008 Accumulated Depreciation	
		Cost	Depreciation		Depr. Expense	Total Cost		
351 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
352 Franchise Cost	0	0	0	0	0	0	0	
353 Land & Land Rights	0	0	0	0	0	461,300	461,300	
354 Structures & Improvements	1,280,897	0	0	0	31,964	2,560,219	1,470,949	
355 Power Generation Equip	0	0	0	0	0	0	0	
360 Collection Sewers, Force	13,858	0	0	0	7,010	707,892	470,844	
361 Collection Sewers, Gravity	125,870	0	0	0	42,220	4,284,949	1,298,058	
362 Special Collection Structures	0	0	0	0	0	0	0	
363 Services	11,739	0	0	0	1,929	198,723	47,464	
364 Flow Measuring Devices	0	0	0	0	1,576	31,512	281	
365 Flow Measuring Installations	274	0	0	0	8,974	179,622	130,845	
370 Receiving Wells	255,684	21,091	21,091	0	13,579	932,871	649,382	
371 Effluent Pumping Equipment	78,867	0	0	0	38,638	657,648	255,945	
380 Treatment & Disposal Equip	120,719	0	0	0	2,080	143,578	139,688	
381 Plant Sewers	1,238	0	0	0	3,098	124,527	18,919	
382 Outfall Sewer Lines	0	0	0	0	0	0	0	
389 Other Plant & Misc. Equip	76,216	0	0	0	30,059	939,432	687,690	
390 Office Furniture & Fixt	0	0	0	0	7,490	224,588	152,591	
391 Transportation Equip	0	0	0	0	10,737	107,367	59,592	
393 Tools, Shop, & Garage Equip	2,262	0	0	0	116	5,755	5,552	
394 Laboratory Equipment	0	0	0	0	374	7,488	5,239	
395 Power Operated Equip	0	0	0	0	0	0	0	
396 Communication Equipment	40,451	0	0	0	1,011	40,451	39,440	
398 Other Tangible Plant	0	0	0	0	0	0	0	
2008 Totals	\$2,008,075	\$21,091	\$21,091	\$0	\$200,855	\$11,607,922	\$5,893,779	

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-8

RATE BASE ADJUSTMENT NO. 4 - ADVANCES IN AID OF CONSTRUCTION ("AIAC")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Advances in Aid of Construction	\$ 1,457,009	\$ 254,251	\$ 1,711,260

References:

Column A: Company Schedule B-1, Page 1
Column B: Testimony, CSB, Company Data Request Responses DH 2.4 and 2.5
Column C: Column [A] + Column [B]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-9

RATE BASE ADJUSTMENT NO. 5 - ACCUMULATED DEFERRED INCOME TAXES ("ADIT")

LINE NO.	DESCRIPTION	[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Accumulated Deferred Income Taxes	\$ (170,554)	\$ 170,554	\$ -

References:

Column A: Company Schedule B-1, Page 1
Column B: Testimony, CSB;
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - WORKING CAPITAL

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Cash Working Capital	\$	-	\$	(101,242)	\$	(101,242)
2							
3							
4							

References:

Column A: Company Schedule B-1
Column B: Testimony, CSB
Column C: Column [A] + Column [B]

RATE BASE ADJUSTMENT NO. 6 - WORKING CAPITAL CONTINUED
Cash Working Capital - Lead Lag Study

Line No.	Description	[A] Proforma TY Expense	[B] Revenue Lag Days ⁷	[C] Expense Lag Days	[D] Net Lag Days	[E] Lead/Lag Factor Col E/365	[F] Cash Working Capital Required (Col A x Col F)
1	Purchased Power	\$ 54,960	9.61	39.79	-30.18	-0.082684932	\$ (4,544)
2	Purchased Wastewater Treatment	\$ 338,381	9.61	38.01	-28.4	-0.077808219	\$ (26,329)
3	Rents - Building	\$ 38,262	9.61	-15.00	24.61	0.067424658	\$ 2,580
4	Scottsdale Capacity Lease ¹	\$ 164,522	9.61	45.00	-35.39	-0.096958904	\$ (15,952)
5	Contractual Services - Allocated Expense	\$ 514,028	9.61	15.00	-5.39	-0.014767123	\$ (7,591)
6	Regulatory Commission Expense - Rate Case Exp ²	\$ -	0	0	0	0	\$ -
7	Insurance ³	\$ 18,704	9.61	-15.00	24.61	0.067424658	\$ 1,261
8	Other Operating Expenses	\$ 201,953	9.61	45.00	-35.39	-0.096958904	\$ (19,581)
9	Property Taxes ⁴	\$ 27,000	9.61	212.00	-202.39	-0.554493151	\$ (14,971)
10	Income Taxes ⁵	\$ -	9.61	91.25	-81.64	-0.223671233	\$ -
11	Synchronized Interest Expense ⁶	\$ 72,047	9.61	91.25	-81.64	-0.223671233	\$ (16,115)
12		\$ 1,429,857					\$ (101,242)

¹ The Commission has authorized the debt payment to be treated as an operating expense. As such, Staff increased the number of expense lag days from a negative 15 to 45. The 45 expense lag days is the number of lag days that the Company is proposing for Other Operating Expenses shown on line 8.

² Staff removed rate case expense so that customers would not be required to pay a rate of return on any portion of the rate case expense.

³ Staff reviewed the insurance account activity on the general ledger that was provided in response to MEM 1.06 and found that the Company makes regular payments to its affiliates for insurance. Therefore, consistent with this observation, Staff utilized that 15 expense lag days that the Company proposes for other expenses paid to affiliates

⁴ Staff used 212 days. This number of lag days has been previously authorized by the Commission for property taxes (Decision No. 66849, page 8, line 16).

⁵ The Company does not file an individual income tax return because the Company's income is consolidated with its affiliates and included on the income tax return of the parent company. It is the Commission's practice, however, to calculate income taxes for utilities on a stand-alone basis. Utilities commonly pay their income taxes on a quarterly basis. Consistent with this approach, Staff calculated 91.25 expense lag days by dividing 365 days by 4 quarterly tax payments.

⁶ Interest expense is a component of return and, therefore, a component of revenue. Interest expense requires a cash payment. The Company collects cash used to make interest payments prior to the interest due date. While Black Mountain has possession of these funds, they are a source of cost-free cash that the Company can use until making payments. Staff calculated 91.25 expense lag days by dividing 365 days by 4 quarterly interest payments.

⁷ Staff adjusted the amount by averaging the revenue lag days with the revenue lags days of the prior case to reflect the fact that some customers pay their bills before the actual due date.

RATE BASE ADJUSTMENT NO. 6 - CASH WORKING CAPITAL
Prepayments

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Prepayments	\$	-	\$	7,152	\$	7,152
2							
3							
4							

	Per Company's General Ledger
Prepaid licenses, fees & permits	\$ (195)
Prepaid rent	\$ 2,174
Prepaid insurance	\$ 7,273
	\$ 9,252
Less: Maricopa County Environmental Services permit fee	\$ 2,100
	\$ 7,152

References:

- Column A: Company Schedule B-1
- Column B: Testimony, CSB
- Column C: Column [A] + Column [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj. No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF PROPOSED CHANGES	[E] STAFF RECOMMENDED
1	<u>REVENUES:</u>						
2	Flat Rate Revenues	\$ 1,557,337	\$ -		\$ 1,557,337	\$ 543,935	\$ 2,101,272
3	Measured Revenues	15,917	-		15,917	-	15,917
4	Other Wastewater Revenues	6,916	-		6,916	-	6,916
5	Intentionally Left Blank	-	-		-	-	-
6	Total Operating Revenues	\$ 1,580,170	\$ -		\$ 1,580,170	\$ 543,935	\$ 2,124,105
7							
8	<u>OPERATING EXPENSES:</u>						
9	Salaries and Wages	\$ -	\$ -		\$ -	\$ -	\$ -
10	Purchased Wastewater Treatment	335,255	3,125	1,2	338,380	-	338,380
11	Sludge Removal Expense	706	-		706	-	706
12	Purchased Power	54,690	-		54,690	-	54,690
13	Fuel for Power Production	928	-		928	-	928
14	Chemicals	37,489	3,324	3,4	40,813	-	40,813
15	Materials & Supplies	11,224	-		11,224	-	11,224
16	Contractual Services, Legal&Engr	9,362	(4,861)	7,8	4,501	-	4,501
17	Contractual Services - Other	553,043	(123,960)	5,6,7,8,13	429,083	-	429,083
18	Contractual Services - Testing	16,955	(1,733)	12	15,222	-	15,222
19	Equipment Rental	1,863	-		1,863	-	1,863
20	Rents - Building	19,830	18,432	10	38,262	-	38,262
21	Transportation	34,445	(5,375)	11	29,070	-	29,070
22	General Liability Insurance	18,704	-		18,704	-	18,704
23	Insurance - Other	990	-		990	-	990
24	Regulatory Commission/Rate Case Expense	60,000	-		60,000	-	60,000
25	Miscellaneous Expense	20,845	-		20,845	-	20,845
26	Bad Debt Expense	11,962	(4,067)	9	7,895	-	7,895
27	Scottsdale Capacity (Operating Lease)	164,522	-		164,522	-	164,522
28	Amort. Of Addit'l Scottsdale Capacity	48,629	-		48,629	-	48,629
29	Depreciation	224,818	9,217	14	234,035	-	234,035
30	Taxes other than Income	(1,780)	1,780	15	-	-	-
31	Property Taxes	32,414	(5,179)	16	27,235	3,157	30,392
32	Income Taxes	7,760	29,574	17	37,334	219,667	257,001
33	Intentionally Left Blank	-	-		-	-	-
34	Total Operating Expenses	\$ 1,664,654	\$ (79,723)		\$ 1,584,931	\$ 222,824	\$ 1,807,755
35	Operating Income (Loss)	\$ (84,484)	\$ 79,723		\$ (4,761)	\$ 321,110	\$ 316,349

References:

Column (A): Company Schedule C-1
Column (B): Schedule MEM-13
Column (C): Column (A) + Column (B)
Column (D): Schedules MEM-1 and MEM-2
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Scottsdale Treatment Price Increase ADJ #1	[C] Annualize Wastewater Treatment ADJ #2	[D] Chemicals Expense Price Increase ADJ #3	[E] Annualize Chemicals Expense ADJ #4	[F] Corporate Expense Allocation ADJ #5	[G] Affiliate Increase ADJ #6	[H] Expensed Plant ADJ #7	[I] Normalized Maint., Legal & Engr. Expenses ADJ #8	[J] Bad Debt Expense ADJ #9
1	REVENUES:										
2	Flat Rate Revenues	\$ 1,557,337	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Measured Revenues	15,917	-	-	-	-	-	-	-	-	-
4	Other Wastewater Revenues	6,916	-	-	-	-	-	-	-	-	-
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
6	Total Operating Revenues	\$ 1,580,170	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7											
8	OPERATING EXPENSES:										
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Purchased Wastewater Trmnt	335,255	2,509	616	-	-	-	-	-	-	-
11	Sludge Removal Expense	706	-	-	-	-	-	-	-	-	-
12	Purchased Power	54,690	-	-	-	-	-	-	-	-	-
13	Fuel for Power Production	928	-	-	-	-	-	-	-	-	-
14	Chemicals	37,489	-	-	3,191	133	-	-	-	-	-
15	Materials & Supplies	11,224	-	-	-	-	-	-	-	-	-
16	Contractual Services, Legal&Engr	9,362	-	-	-	-	-	-	-	-	-
17	Contractual Services - Other	553,043	-	-	-	-	(24,492)	(50,302)	(1,500)	(3,361)	-
18	Contractual Services - Testing	16,955	-	-	-	-	-	-	(7,641)	(26,580)	-
19	Equipment Rental	1,863	-	-	-	-	-	-	-	-	-
20	Rents - Building	19,830	-	-	-	-	-	-	-	-	-
21	Transportation	34,445	-	-	-	-	-	-	-	-	-
22	General Liability Insurance	18,704	-	-	-	-	-	-	-	-	-
23	Insurance - Other	990	-	-	-	-	-	-	-	-	-
24	Reg Comm/Rate Case Expense	60,000	-	-	-	-	-	-	-	-	-
25	Miscellaneous Expense	20,845	-	-	-	-	-	-	-	-	-
26	Bad Debt Expense	11,962	-	-	-	-	-	-	-	-	-
27	Scottsdale Cap (Operating Lease)	164,522	-	-	-	-	-	-	-	-	-
28	Add'l Scottsdale Capacity Amort.	48,629	-	-	-	-	-	-	-	-	-
29	Depreciation	224,818	-	-	-	-	-	-	-	-	-
30	Taxes other than Income	(1,780)	-	-	-	-	-	-	-	-	-
31	Property Taxes	32,414	-	-	-	-	-	-	-	-	-
32	Income Taxes	7,760	-	-	-	-	-	-	-	-	-
33	Intentionally Left Blank	-	-	-	-	-	-	-	-	-	-
34	Total Operating Expenses	\$ 1,664,654	\$ 2,509	\$ 616	\$ 3,191	\$ 133	\$ (24,492)	\$ (50,302)	\$ (9,141)	\$ (29,941)	\$ (4,067)
35	Operating Income (Loss)	\$ (84,484)	\$ (2,509)	\$ (616)	\$ (3,191)	\$ (133)	\$ 24,492	\$ 50,302	\$ 9,141	\$ 29,941	\$ 4,067

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR CONTINUED

LINE NO.	DESCRIPTION	[K] Rents Exp ADJ #10	[L] Transportation Exp ADJ #11	[M] Testing Exp ADJ #12	[N] Bonuses, Meals, and Other Exp ADJ #13	[O] Depreciation Exp ADJ #14	[P] Taxes Other Than Income Exp ADJ #15	[Q] Property Tax Exp ADJ #16	[R] Income Tax Exp ADJ #17	[S] STAFF ADJUSTED
1	REVENUES:	Ref. Sch CSB-22	Ref. Sch CSB-23	Ref. Sch CSB-24	Ref. Sch CSB-25	Ref. Sch CSB-26	Ref. Sch CSB-27	Ref. Sch CSB-28	Ref. Sch CSB-29	ADJUSTED
2	Flat Rate Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,557,337
3	Measured Revenues	-	-	-	-	-	-	-	-	15,917
4	Other Wastewater Revenues	-	-	-	-	-	-	-	-	6,916
5	Intentionally Left Blank	-	-	-	-	-	-	-	-	-
6	Total Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,580,170
7										
8	OPERATING EXPENSES:									
9	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Purchased Wastewater Trmt	-	-	-	-	-	-	-	-	338,380
11	Sludge Removal Expense	-	-	-	-	-	-	-	-	706
12	Purchased Power	-	-	-	-	-	-	-	-	54,690
13	Fuel for Power Production	-	-	-	-	-	-	-	-	928
14	Chemicals	-	-	-	-	-	-	-	-	40,813
15	Materials & Supplies	-	-	-	-	-	-	-	-	11,224
16	Contractual Services, Legal&Engr	-	-	-	(14,945)	-	-	-	-	4,501
17	Contractual Services - Other	-	-	-	-	-	-	-	-	429,083
18	Contractual Services - Testing	-	-	(1,733)	-	-	-	-	-	15,222
19	Equipment Rental	-	-	-	-	-	-	-	-	1,863
20	Rents - Building	18,432	-	-	-	-	-	-	-	38,262
21	Transportation	-	(5,375)	-	-	-	-	-	-	29,070
22	General Liability Insurance	-	-	-	-	-	-	-	-	18,704
23	Insurance - Other	-	-	-	-	-	-	-	-	990
24	Reg Comm/Rate Case Expense	-	-	-	-	-	-	-	-	60,000
25	Miscellaneous Expense	-	-	-	-	-	-	-	-	20,845
26	Bad Debt Expense	-	-	-	-	-	-	-	-	7,895
27	Scottsdale Cap (Operating Lease)	-	-	-	-	-	-	-	-	164,522
28	Add'l Scottsdale Capacity Amort.	-	-	-	-	-	-	-	-	48,629
29	Depreciation	-	-	-	-	9,217	-	-	-	234,035
30	Taxes other than Income	-	-	-	-	-	1,780	-	-	-
31	Property Taxes	-	-	-	-	-	-	(5,179)	-	27,235
32	Income Taxes	-	-	-	-	-	-	-	29,574	37,334
33	Intentionally Left Blank	-	-	-	-	-	-	-	-	-
34	Total Operating Expenses	\$ 18,432	\$ (5,375)	\$ (1,733)	\$ (14,945)	\$ 9,217	\$ 1,780	\$ (5,179)	\$ 29,574	\$ 1,584,931
35	Operating Income (Loss)	\$ (18,432)	\$ 5,375	\$ 1,733	\$ 14,945	\$ (9,217)	\$ (1,780)	\$ 5,179	\$ (29,574)	\$ (4,761)

BLACK MOUNTAIN SEWER CORPORATION
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Surrebuttal Schedule CSB-13

OPERATING INCOME ADJUSTMENT NO. 1 - SCOTTSDALE TREATMENT PRICE INCREASE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Purchased Wastewater Treatment	\$ 335,255	\$ -	\$ 335,255
2	Scottsdale Treatment Price Increase	-	2,509	2,509
3	Total Purchased Wastewater Treatment	\$ 335,255	\$ 2,509	\$ 337,764

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB; Company Rebuttal Schedule C-1, Page 2.1

Column C: Column [A] + Column [B]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-14

OPERATING INCOME ADJUSTMENT NO. 2 - ANNUALIZE WASTEWATER TREATMENT

LINE		[A]	[B]	[C]
NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Purchased Wastewater Treatment	\$ 335,255	\$ -	\$ 335,255
2	Annualize Treatment Expense	-	616	616
3	Total Purchased Wastewater Treatment	\$ 335,255	\$ 616	\$ 335,871

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB; Company Rebuttal Schedule C-1, Page 2.1

Column C: Column [A] + Column [B]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-15

OPERATING INCOME ADJUSTMENT NO. 3 - CHEMICALS PRICE INCREASE

LINE		[A]	[B]	[C]
NO.	DESCRIPTION	COMPANY PROPOSED	STAFF ADJUSTMENTS	STAFF RECOMMENDED
1	Chemicals	\$ 37,489	\$ -	\$ 37,489
2	Chemicals Price Increase	-	3,191	3,191
3	Total Chemicals Expense	\$ 37,489	\$ 3,191	\$ 40,680

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB; Company Rebuttal Schedule C-1, Page 2.1

Column C: Column [A] + Column [B]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-16

OPERATING INCOME ADJUSTMENT NO. 4 - ANNUALIZE CHEMICALS EXPENSE

LINE		[A] COMPANY	[B] STAFF	[C] STAFF
<u>NO.</u>	<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>ADJUSTMENTS</u>	<u>RECOMMENDED</u>
1	Chemicals	\$ 37,489	\$ -	\$ 37,489
2	Chemicals Price Increase	-	133	133
3	Total Chemicals Expense	\$ 37,489	\$ 133	\$ 37,622

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB; Company Rebuttal Schedule C-1, Page 2.1

Column C: Column [A] + Column [B]

**OPERATING INCOME ADJUSTMENT NO. 5 - EXPENSE ALLOCATIONS
FROM UNREGULATED AFFILIATE**

LINE NO.	DESCRIPTION	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS (Col C - Col A)		STAFF AS ADJUSTED	
1	Contractual Services - Other	\$ 527,099		\$ -		\$ 527,099	
2	Corporate Expense Allocation	25,944		(24,492)		1,452	
3	Total Contractual Services - Other	\$ 553,043		\$ (24,492)		\$ 528,551	
4							
5							
6							
7							
8							
9							
10							
11							
12							
13	Rent	\$ 430,739	\$ -	\$ (430,739)	\$ -	1.28%	\$ -
14	Audit ¹	\$ 507,000	\$ -	\$ (456,300)	\$ 50,700	1.28%	\$ 650.00
15	Tax Services ²	\$ 265,000	\$ -	\$ (238,500)	\$ 26,500	1.28%	\$ 339.74
16	Legal-General ³	\$ 300,000	\$ -	\$ (284,400)	\$ 15,600	1.28%	\$ 200.00
17	Other Professional Services	\$ 455,000	\$ -	\$ (455,000)	\$ -	1.28%	\$ -
18	Management Fee	\$ 636,619	\$ -	\$ (636,619)	\$ -	1.28%	\$ -
19	Unit Holder Communications	\$ 314,100	\$ -	\$ (314,100)	\$ -	1.28%	\$ -
20	Trustee Fees	\$ 204,000	\$ -	\$ (204,000)	\$ -	1.28%	\$ -
21	Office Costs	\$ 254,100	\$ (46,186)	\$ (207,914)	\$ -	1.28%	\$ -
22	Licenses/Fees and Permits	\$ 305,000	\$ (145,642)	\$ (159,358)	\$ -	1.28%	\$ -
23	Escrow and Transfer Fees	\$ 75,000	\$ -	\$ (75,000)	\$ -	1.28%	\$ -
24	Depreciation Expense ⁴	\$ 204,242	\$ -	\$ (183,818)	\$ 20,424	1.28%	\$ 261.85
25		\$ 3,950,800	\$ (191,828)	\$ (3,645,748)	\$ 113,224		\$ 1,451.59

- 28 Foot Note 1: Audit - As the parent company's lenders require the APIF to have annual financial audits, Staff assigned the
29 majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 78 companies/interests.
30
- 31 Foot Note 2: Tax Services - Given the tax complexity of the APIF's many holdings and transactions, Staff assigned the
32 majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 78 companies/interests.
33
- 34 Foot Note 3: Legal, General - Staff reviewed the legal invoices and found that the very large majority of the legal invoices
35 pertained to the APIF. Staff identified only one invoice that specifically related to Black Mountain.
36 The cost indicated on the invoice that was directly related to Black Mountain was approximately \$200.
37
- 38 Foot Note 4: Depreciation Expense - Given that most of APIF's plant costs benefit primarily APIF, Staff assigned the
39 majority of the cost (i.e., 90 percent) to APIF and the remaining 10 percent to its 78 companies/interests.
40
- 41 Foot Note 5: Allocation Percentage - Calculated as follows: 1 / 78 companies = 1.28%. The 78 companies represents
42 the average of the year-end 2006, 85 companies, and year-end 2007, 71 companies.

References:

- Column A: Company Schedule E-5
Column B: Testimony, CSB, Company Data Request Responses CSB 1.45
Column C: Column [A] + Column [B]

LINE NO.	Category	Description of Unallowable Cost	Amount
1	Office Fees and Expenses	Wind Analysis & Planning Software	\$15,056
2	Office Fees and Expenses	Gold Watches and Clocks	\$16,864
3	Office Fees and Expenses	Pilsner Beer Glasses	\$5,700
4	Office Fees and Expenses	Leafs-Raptors Season Tickets	\$5,066
5	Office Fees and Expenses	Super Bowl XLII Tickets	\$3,500
6		Subtotal for Office Expenses	\$46,186
7			
8			
9	Licenses and Fees	Donation - Wind Project Develop	\$25,000
10	Licenses and Fees	Donation - Water Project in Africa	\$25,000
11	Licenses and Fees	Donation - Cancer Society	\$13,350
12	Licenses and Fees	Donation - Multiple Myeloma	\$5,000
13	Licenses and Fees	Wind Development	\$7,887
14	Licenses and Fees	U.S. Trustee	\$9,375
15	Licenses and Fees	St. Leon Wind Energy	\$12,556
16	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$6,891
17	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$6,794
18	Licenses and Fees	Tax Ruling Request for KMS America & Subs	\$10,000
19	Licenses and Fees	Algonquin Power Fund Inc Taxes	\$23,789
20		Subtotal for Licenses & Fees	\$145,642

OPERATING INCOME ADJUSTMENT NO. 6 - AFFILIATE INCREASE

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] STAFF ADJUSTMENTS (Col C - Col A)	[C] STAFF AS ADJUSTED
1	Contractual Services - Other	\$ 452,439	\$ -	\$ 452,439
2	Affiliate Increase	50,302	(50,302)	-
3	Total Contractual Services - Other	\$ 502,741	\$ (50,302)	\$ 452,439
4				
5				
6				

References:

Column A: Company Schedule C-2, Page 1, Adjustment No. 11

Column B: Testimony, CSB; Company Data Request Responses to MEM 1.28, CSB 9.5, 9.6, 9.8

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 7 - EXPENSED PLANT

LINE NO.	Description	[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED (Col A + Col B)	
1	Contractual Services, Legal and Engineering Exp	\$	9,362	\$	(1,500)	\$	7,862
2	Contractual Services, Other Expense	\$	553,043	\$	(7,641)	\$	545,402
3		\$	-				
4		\$	-				
5		\$	-				
6	Total	\$	562,405	\$	(9,141)	\$	553,264
7							
8							
9	PLANT COSTS REMOVED FROM CONTRACTUAL SERVICES, LEGAL & ENGINEERING EXPENSE (MEM 1.55)						
10	Acct. No.	Vendor Name		Description		Amount	
11	354 - Structures & Improv	Consulting Land Surveyors		Locate existing and set new boundaries		\$ 1,500.00	
12							
13							
14	PLANT COSTS REMOVED FROM CONTRACTUAL SERVICES, OTHER EXPENSE (MEM 1.55)						
15	Acct. No.	Vendor Name		Description		Amount	
16	354 - Structures & Improv	Consulting Land Surveyors		Locate existing and set new boundaries		\$ 800.00	
17							
18							
19	360-Collection Svcs, Force	ADEQ Approval to Construct		Certificate		\$ 1,600.00	
20	370-Receiving Wells	ADEQ Approval to Construct		Certificate		\$ 1,200.00	
21				Subtotal		\$ 2,800.00	
22							
23	371-Effluent Pumping Plant	Keller Equipment Company		Install submersible Pumps		\$ 1,212.00	
24	371-Effluent Pumping Plant	Keller Equipment Company		Set two pumps; pull one		\$ 1,591.25	
25				Subtotal		\$ 2,803.25	
26							
27							
28	381-Plant Sewers	KSK Electric		New cables, sand filters		\$ 1,237.72	
29							
30				Total for Contractual Services, Other		\$ 7,640.97	
31							
32				Grand Total		\$ 9,140.97	

References:

Column A: Company Schedule B-2, Page 3
Column B: Testimony, CSB, Company Data Request Responses MEM 1.55
Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 8 - NORMALIZED MAINTENANCE, LEGAL, & ENGINEERING EXPENSES

LINE NO.		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services - Other	\$ 462,871	\$ (26,580)	\$ 489,451
2	Contractual Services, Legal and Engr.	9,362	(3,361)	9,362
3		\$ 472,233	\$ (29,941)	\$ 498,813
4				
5				
6				[D]
7				Normalized
8				Maintenance Expense
9				(MEM 1.55)
10			Cost of Sewer Spill	\$ 39,870
11			Divided by 3 Years	3
12			Normalized Cost for Sewer Spill	\$ 13,290
13			Normalized Cost for Sewer Spill	\$ 13,290
14			Less: Cost for Sewer Spill	\$ 39,870
15			Staff's Adjustment	(26,580)
16				
17				
18				
19	[E]	[F]	[G]	[H]
20	Year	Contractual	Land Surveying	Normalized
21		Services	Costs Capitalized	Legal & Engr. Exp
22	Company Schedule E-2	Legal & Engr	(Sch CSB-14)	(Col E + Col F)
23	6/30/2006	\$ 5,503	\$ -	\$ 5,503
24	6/30/2007	\$ 4,639	\$ -	\$ 4,639
25	6/30/2008	\$ 9,362	\$ (1,500)	\$ 7,862
26				\$ 18,004
27			Divided by 3 Years	3
28			Normalized Legal and Engineering Expense	\$ 6,001
29				
30			Normalized Legal and Engineering Expense	\$ 6,001
31			Less: Legal and Engineering Expense	\$ 9,362
32			Staff's Adjustment	(3,361)

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB, Company Data Request Response MEM 1.55, Company Schedule E-2

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 9 - BAD DEBT EXPENSE

LINE NO.		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Bad Debt Expense - Test Year	\$ 7,898	\$ -	\$ 7,898
2	Bad Debt Expense Not Incurred in Test Year	\$ 4,067	\$ (4,067)	\$ -
3	Total Bad Debt Expense	\$ 11,965	\$ (4,067)	\$ 7,898
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				

[D]	[E]
Year	Bad Debt Expense
6/30/2006	\$ 2,240
6/30/2007	\$ 1,757
Amount to Reconcile G/L to Actual Write-offs	\$ 70
Bad Debt Expense Not Incurred in Test Year	\$ 4,067
6/30/2008	\$ 7,898
Bad Debt Expense per Company	\$ 11,965

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB, Company Schedule E-2
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 10 - RENTS, BUILDING EXPENSE

LINE NO.		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Rents, Building (1/1/2008 to 6/30/2008)	\$ 19,830	\$ -	\$ 19,830
2	Annualization Adjustment	-	18,432	18,432
3	Total Contractual Services - Other	\$ 19,830	\$ 18,432	\$ 38,262
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				

					[D]
					Rents, Building Expense (CSB 10.11)
				Office Rent	\$ 2,368
				Storage Space	\$ 117
				Utilities	600
				Taxes	104
				Total	\$ 3,189
				Multiplied by 12 months	12
					\$ 38,262
				Test Year Rents, Building Expense	\$ 19,830
				Annualization Adjustment	\$ 18,432

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB, Company Data Request Response CSB 10.11
- Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 11 - TRANSPORTATION EXPENSE

LINE NO.		[A]		[B]		[C]	
		COMPANY AS FILED		STAFF ADJUSTMENTS		STAFF AS ADJUSTED	
1	Transportation Expense	\$	23,695	\$	-	\$	23,695
2	2007 Chevrolet Silverado Lease Cost		10,750		(5,375)		5,375
3	Total Contractual Services - Other	\$	34,445	\$	(5,375)	\$	29,070
4							
5							
6							
7							
8							
9							
10							
11	Annual Lease Expense for 2007	\$	10,750				
12	Multiplied by		50.00%	Split Between Black Mtn and Litchfield Park			
13	Black Mountain's Allocated Costs	\$	5,375				
14							
15							

References:

- Column A: Company Schedule C-1
- Column B: Testimony, CSB, Company Data Request Response MEM 1.55 and CSB 10.4
- Column C: Column [A] + Column [B]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-24

OPERATING INCOME ADJUSTMENT NO. 12 - TESTING EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Testing Expense	\$ 16,955	\$ (1,733)	\$ 15,222

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB, Staff Engineering Report Executive Summary

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 13 - BONUSES, MEALS, & OTHER EXPENSES

LINE NO.		[A]	[B]	[C]
		COMPANY AS FILED	STAFF ADJUSTMENTS	STAFF AS ADJUSTED
1	Contractual Services - Other	\$ 487,796	\$ -	\$ 487,796
2	Bonuses, Meals, Beverages, Etc.	14,945	(14,945)	-
3	Total Contractual Services - Other	\$ 502,741	\$ (14,945)	\$ 487,796
4				
5				
6				
7		Bonuses	\$ 13,460	MEM 1.24
8		Meals	526	CSB 10.3
9		Beverages	907	MEM 1.55
10		Charitable Contributions	52	MEM 1.46
11			\$ 14,945	

References:

Column A: Company Schedule C-1

Column B: Testimony, CSB, Company Data Request Response MEM 1.24,1.46,1.55, CSB 10.3

Column C: Column [A] + Column [B]

OPERATING INCOME ADJUSTMENT NO. 14 - DEPRECIATION EXPENSE ON TEST YEAR PLANT

LINE NO.	ACCT NO.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
1	351	Organization	\$ -	\$ -	\$ -	0.00%	\$ -
2	352	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
3	353	Land and Land Rights	\$ 461,300	\$ 461,300	\$ -	0.00%	\$ -
4	354	Structures and Improvements	\$ 2,560,220	\$ -	\$ 2,560,220	3.33%	\$ 85,255
5	355	Power Generation Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
6	360	Collection Services - Force	\$ 707,892	\$ -	\$ 707,892	2.00%	\$ 14,158
7	361	Collection Services - Gravity	\$ 4,284,948	\$ -	\$ 4,284,948	2.00%	\$ 85,699
8	362	Special Collecting Structures	\$ -	\$ -	\$ -	2.00%	\$ -
9	363	Services to Customers	\$ 198,723	\$ -	\$ 198,723	2.00%	\$ 3,974
10	364	Flow Measuring Devices	\$ 31,512	\$ -	\$ 31,512	10.00%	\$ 3,151
11	365	Flow Measuring Installations	\$ 179,622	\$ -	\$ 179,622	10.00%	\$ 17,962
12	370	Receiving Wells	\$ 932,871	\$ -	\$ 932,871	3.33%	\$ 31,065
13	371	Effluent Pumping Equipment	\$ 657,647	\$ -	\$ 657,647	12.50%	\$ 82,208
14	380	Treatment and Disposal Equipment	\$ 143,578	\$ -	\$ 143,578	5.00%	\$ 7,179
15	381	Plant Sewers	\$ 124,527	\$ -	\$ 124,527	5.00%	\$ 6,226
16	382	Outfall Sewer Lines	\$ -	\$ -	\$ -	3.33%	\$ -
17	389	Other Plant & Misc. Equipment	\$ 939,432	\$ -	\$ 939,432	6.67%	\$ 62,660
18	390	Office Furniture & Equipment	\$ 224,587	\$ -	\$ 224,587	6.67%	\$ 14,980
19	391	Transportation Equipment	\$ 107,367	\$ -	\$ 107,367	20.00%	\$ 21,473
20	393	Tools, Shop & Garage Equipment	\$ 5,754	\$ -	\$ 5,754	5.00%	\$ 288
21	394	Laboratory Equipment	\$ 7,488	\$ -	\$ 7,488	10.00%	\$ 749
22	395	Power Operated Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
23	396	Communication Equipment	\$ 40,451	\$ -	\$ 40,451	10.00%	\$ 4,045
24	398	Other Tangible Plant	\$ -	\$ -	\$ -	10.00%	\$ -
25		Total Plant	\$ 11,607,919	\$ 461,300	\$ 11,146,619		\$ 441,071
26							
27		Composite Depreciation Rate (Depr Exp / Depreciable Plant):	3.96%				
28		CIAC: \$	5,232,139				
29		Amortization of CIAC (Line 25 x Line 26): \$	207,035				
30							
31		Depreciation Expense Before Amortization of CIAC: \$	441,071				
32		Less Amortization of CIAC: \$	207,035				
33		Test Year Depreciation Expense - Staff: \$	234,035				
34		Depreciation Expense - Company: \$	224,818				
35		Staff's Total Adjustment: \$	9,217				

References:

Column [A]: Schedule CSB-4
Column [B]: From Column [A]
Column [C]: Column [A] - Column [B]
Column [D]: Engineering Staff Report
Column [E]: Column [C] x Column [D]

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-27

OPERATING INCOME ADJUSTMENT NO. 15 - TAXES OTHER THAN INCOME

LINE		[A] COMPANY	[B] STAFF	[C] STAFF
<u>NO.</u>	<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>ADJUSTMENTS</u>	<u>RECOMMENDED</u>
1	Taxes Other Than Income	\$ (1,780)	\$ 1,780	\$ -

References:

Col [A]: Company Schedule C-2

Col [B]: Col [C] - Col [A]

Col [C]: CSB Testimony; Company Data Request Response to MEM 1.58

BLACK MOUNTAIN SEWER CORPORATION
Docket No. SW-02361A-08-0609
Test Year Ended June 30, 2008

Surrebuttal Schedule CSB-28

OPERATING INCOME ADJUSTMENT #16 - Property Tax Expense

LINE NO.	Property Tax Calculation	STAFF AS ADJUSTED	STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues	\$ 1,580,170	\$ 1,580,170
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,160,340	\$ 3,160,340
4	Staff Recommended Revenue, Per Schedule CSB-1	1,580,170	\$ 2,124,104
5	Subtotal (Line 4 + Line 5)	4,740,510	5,284,444
6	Number of Years	3	3
7	Three Year Average (Line 5 / Line 6)	1,580,170	\$ 1,761,481
8	Department of Revenue Multiplier	2	2
9	Revenue Base Value (Line 7 * Line 8)	3,160,340	\$ 3,522,963
10	Plus: 10% of CWIP -	14,202	14,202
11	Less: Net Book Value of Licensed Vehicles	46,420	\$ 46,420
12	Full Cash Value (Line 9 + Line 10 - Line 11)	3,128,122	\$ 3,490,745
13	Assessment Ratio	21.0%	21.0%
14	Assessment Value (Line 12 * Line 13)	656,906	\$ 733,056
15	Composite Property Tax Rate (Per Company Schedule C-2, P. 2)	4.1459%	4.1459%
16	Staff Test Year Adjusted Property Tax (Line 14 * Line 15)	\$ 27,235	\$ -
17	Company Proposed Property Tax	32,414	
18	Staff Test Year Adjustment (Line 16-Line 17)	\$ (5,179)	
19	Property Tax - Staff Recommended Revenue (Line 14 * Line 15)		\$ 30,392
20	Staff Test Year Adjusted Property Tax Expense (Line 16)		\$ 27,235
21	Increase in Property Tax Expense Due to Increase in Revenue Requirement		\$ 3,157
22	Increase to Property Tax Expense		\$ 3,157
23	Increase in Revenue Requirement		543,934
24	Increase to Property Tax per Dollar Increase in Revenue (Line 19/Line 20)		0.580426%

OPERATING INCOME ADJUSTMENT NO. 17 - TEST YEAR INCOME TAXES

LINE
NO.

DESCRIPTION

		Test Year
<i>Calculation of Income Tax:</i>		
1	Revenue (Schedule CSB-11)	\$ 1,580,170
2	Operating Expenses Excluding Income Taxes	\$ 1,383,075
3	Synchronized Interest (L17)	\$ 72,047
4	Arizona Taxable Income (L1 - L2 - L3)	\$ 125,048
5	Arizona State Income Tax Rate	6.9680%
6	Arizona Income Tax (L4 x L5)	\$ 8,713
7	Federal Taxable Income (L4 - L6)	\$ 116,335
8	Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	\$ 7,500
9	Federal Tax on Second Income Bracket (\$51,001 - \$75,000) @ 25%	\$ 6,250
10	Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	\$ 8,500
11	Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	\$ 6,371
12	Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	\$ -
13	Total Federal Income Tax	\$ 28,621
14	Combined Federal and State Income Tax (L44 + L51)	\$ 37,334

<i>Calculation of Interest Synchronization:</i>		
15	Rate Base (Schedule CSB-13, Col. (C), Line 16)	\$ 3,602,336
16	Weighted Average Cost of Debt	2.00%
17	Synchronized Interest (L16 x L17)	\$ 72,047

18	Income Tax - Per Staff	\$ 37,334
19	Income Tax - Per Company	\$ 7,760
20	Staff Adjustment	\$ 29,574

RATE DESIGN

	Present Rates	Company Proposed	Percent Increase	Present Rates	Staff Recommended	Percent Increase
Residential Service-Per Month	\$45.64	\$ 71.08	55.74%	\$45.64	\$61.62	35.02%
Commercial, Regular¹	\$ 0.18298	\$ 0.28499	55.75%	\$ 0.18298	\$ 0.24705	35.02%

Commercial - Special Rate	Present Rates			Company Proposed		Staff Recommended	
Name of Business	Gallons Per Day	Monthly Billing	Rate Per Gallon	Monthly Billing	Rate Per Gallon	Monthly Billing	Rate Per Gallon
BH Enterprises-West	2,525	\$354.36	\$0.14034	N/A	N/A	*	*
BH Enterprises-East	1,400	\$196.48	\$0.14034	N/A	N/A	*	*
Barb's Pet Grooming	250	\$35.09	\$0.14034	N/A	N/A	*	*
Boulder's Resort	29,345	\$4,173.74	\$0.14223	\$8,363.03	\$ 0.28499	\$5,635.22	\$0.19203
Carefree Dental	1,625	\$228.05	\$0.14034	N/A	N/A	*	*
Ridgecrest Realty	450	\$63.87	\$0.14193	N/A	N/A	*	*
Desert Forest	7,000	\$1,144.08	\$0.16344	\$1,994.93	\$ 0.28499	\$1,544.69	\$0.22067
Desert Hills Pharmacy	800	\$136.49	\$0.17061	N/A	N/A	*	*
El Pedregal	15,787	\$2,215.55	\$0.14034	\$4,499.14	\$ 0.28499	\$2,991.34	\$0.18948
Lemon Tree	300	\$41.07	\$0.13691	N/A	N/A	*	*
Body Shop	1,000	\$176.47	\$0.17647	N/A	N/A	*	*
Spanish Village	4,985	\$699.59	\$0.14034	\$1,420.68	\$ 0.28499	\$944.57	\$0.18948
Boulder's Club	1,200	\$168.41	\$0.14034	\$341.99	\$ 0.28499	\$341.99	\$0.18948
Anthony Vuitaggio	300	\$46.79	\$0.15597	N/A	N/A	*	*

	Effluent Sales		
	Present Rates	Company Proposed	Staff Recommended
Effluent Sales			
Per thousand gallons	\$0.374400	\$0.460510	\$0.460510
Per Acre Feet	\$122.00	\$150.00	

Service Charges:	Present Rates	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Re-establishment	\$ 25.00	\$ 25.00	\$ 25.00
Re-connection	No Charge	No Charge	No Charge
Minimum Deposit (Residential)	(a)	(a)	(a)
Minimum Deposit (Non-Residential)	(a)	(a)	(a)
Deposit Interest	(a)	(a)	6.00%
NSF Check Charge	\$ 10.00	\$ 10.00	\$ 10.00
Deferred Payment Finance Charge	1.50%	1.50%	1.50%
Late Charge	1.50%	1.50%	1.50%
Main Extension Tariff	Cost	Cost (b)	Cost
Hook-Up Fee for New Service ¹	\$ 6.47	\$ 6.47	N/A

¹ Per Gallon per Day. Wastewater flows are based on Engineering Bulletin 12, Table 1 published by ADEQ.

(a) Per A.A.C. R14-2-603B: Residential - two times average bill, Non-residential - two and one-half times average bill

(b) Per A.A.C. R14-2-606B

N/A Not included in current or proposed tariff.

* Staff recommends that this rate be removed from the tariff.

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
BLACK MOUNTAIN SEWER CORPORATION,)
AN ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE OF)
ITS UTILITY PLANT AND PROPERTY AND)
FOR INCREASES IN ITS RATES AND)
CHARGES FOR UTILITY SERVICE BASED)
THEREON)

DOCKET NO. SW-02361A-08-0609

SURREBUTTAL

TESTIMONY

OF

JUAN C. MANRIQUE

PUBLIC UTILITIES ANALYST I

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 9, 2009

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**EXECUTIVE SUMMARY
BLACK MOUNTAIN SEWER CORPORATION
DOCKET NO. SW-02361A-08-0609**

The Surrebuttal Testimony of Staff witness Juan C. Manrique addresses the following issues:

Capital Structure – Staff recommends that the Commission adopt a capital structure for Black Mountain Sewer Corporation (“Applicant”) for this proceeding consisting of 0.0 percent debt and 100.0 percent equity. Although the Applicant has debt in the form of capital leases, the Commission has directed (Decision No. 59944) recovery of the lease costs as operating expense.

Cost of Equity – Staff recommends that the Commission adopt a 9.4 percent return on equity (“ROE”) for the Applicant. Staff’s estimated ROE for the Applicant is based on cost of equity estimates for the sample companies ranging from 9.9 percent for the discounted cash flow method (“DCF”) to 10.5 percent for the capital asset pricing model (“CAPM”). Staff’s ROE recommendation includes a 0.8 percent downward adjustment to reflect a lower financial risk in the Applicant’s capital structure compared to that of the sample companies.

Overall Rate of Return – Staff recommends that the Commission adopt an overall rate of return (“ROR”) of 9.4 percent.

Response to the Rebuttal Testimony of Applicant’s witness Mr. Thomas J. Bourassa – The Commission should reject the Company’s proposals to allow for a firm size adjustment, to selectively eliminate inputs in Staff’s cost of equity estimation with unfavorable outputs resulting in an imbalance in Staff’s cost of equity estimation, and to rely exclusively on analysts’ forecasts for DCF estimates.

I. INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Juan C. Manrique. I am a Public Utilities Analyst employed by the Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Juan C. Manrique who filed Direct Testimony in this case?

A. Yes, I am.

Q. What is the purpose of your Surrebuttal Testimony in this rate proceeding?

A. The purpose of my Surrebuttal Testimony in this rate proceeding is to report on Staff's updated cost of capital analysis with its recommendations regarding Black Mountain Sewer Corporation's ("Black Mountain" or "Applicant") cost of capital and to respond to the cost of capital portion of the Rebuttal Testimony of Black Mountain's witness Mr. Thomas J. Bourassa ("Mr. Bourassa's Rebuttal").

Q. Please explain how Staff's Surrebuttal Testimony is organized.

A. Staff's Surrebuttal Testimony is presented in four sections. Section I is this introduction. Section II discusses Staff's updated cost of capital analysis. Section III presents Staff's comments on Mr. Bourassa's Rebuttal. Lastly, Section IV presents Staff's recommendations.

II. COST OF EQUITY AND OVERALL RATE OF RETURN

Q. Did Staff update its analysis concerning the Applicant's cost of equity ("COE") since it filed its Direct Testimony?

A. Yes. Staff updated its analysis to include the most updated data available.

1 **Q. What is Staff's updated COE?**

2 A. Staff's updated COE is 9.4 percent. In Staff's Direct Testimony, the COE was 9.6
3 percent.

4
5 **Q. What is Staff recommending for Black Mountain's COE?**

6 A. Staff is recommending a COE of 9.4 percent derived from its updated cost of equity
7 estimated range from 9.9 percent to 10.5 percent with a downward financial risk
8 adjustment of 80 basis points (0.8 percent).

9
10 **Q. Did Staff update its analysis concerning the Applicant's overall rate of return?**

11 A. Yes.

12
13 **Q. What is Staff's updated overall rate of return?**

14 A. Staff's updated overall rate of return is 9.4 percent. In Staff's Direct Testimony, the
15 overall rate of return was 9.6 percent.

16
17 **Q. What is Staff recommending for Black Mountain's overall rate of return?**

18 A. Staff is recommending an overall rate of return of 9.4 percent. Staff's recommendation is
19 based on a COE of 9.4 percent, a cost of debt at 9.4 percent and a capital structure of
20 100.0 percent equity and 0.0 percent debt as shown on Surrebuttal Schedule JCM-1.¹

21

¹ Although the Applicant has debt in the form of capital leases, the Commission has directed (Decision No. 59944) recovery of the lease costs as operating expense.

**III. RESPONSE TO THE REBUTTAL TESTIMONY OF THE APPLICANT'S COST
OF CAPITAL WITNESS**

Mr. Bourassa's Rebuttal

Q. Does Staff have a response to Mr. Bourassa's citation that "[i]n Chapter 7 of Morningstar's Ibbotson SBBI 2009 Valuation Yearbook, for example, Ibbotson reports that when betas are properly estimated, betas are larger for smaller companies than for larger companies?"²

A. Yes. It is generally understood that smaller companies tend to have higher betas than larger companies due to larger variations in earnings, thus making the smaller companies more risky. However, the Ibbotson report pertains to a broad spectrum of stocks that are not specific to the utilities industry. A utility industry specific study to determine whether the firm size phenomenon exists in the public utility industry concluded that there is no need to adjust for firm size in utility rate regulation.³ Also, much of the higher variance in small stocks has been attributed to the "January effect" that is expected to have a larger impact on smaller stocks than larger stocks because smaller stocks are less likely to be in the portfolios of tax-exempt institutional investors and pension funds.

Q. Please respond to Mr. Bourassa's argument that "Staff's historical DPS growth rates produce indicated costs of equity below the cost of debt for 3 of the 6 publicly traded water utilities in Staff's water proxy group – one as low as 3.9 percent."⁴

A. Staff uses a balanced approach to cost of equity model which takes into account both high and low outcomes. Mr. Bourassa suggests that inputs that have outcomes that produce unfavorable results should be selectively eliminated. Such selective exclusions are inconsistent with the fundamental concept of Staff's cost of equity estimation model to include a balance among inputs.

² Mr. Bourassa's Rebuttal, page 6, lines 1-4.

³ Wong, Annie. "Utility Stocks and the Size Effect: An Empirical Analysis." *Journal of the Midwest Finance Association*. 1993. pp. 95-101.

⁴ Mr. Bourassa's Rebuttal, page 11, line 19.

1 **Q. Does Staff have a response to Mr. Bourassa's assertion that "[i]f investors rely on**
2 **analysts' growth rate forecasts, those forecasts should be used to determine the cost**
3 **of equity?"**⁵

4 A. Yes. Mr. Bourassa makes this assertion as if the *only* factor investors look at is analysts'
5 growth rates. Investors do rely on analysts forecasts as one factor in investment decisions;
6 however, other factors such as historical data also factor into investors' investment
7 decisions.

8
9 **IV. STAFF RECOMMENDATIONS**

10 **Q. What are Staff's recommendations for Black Mountain's cost of capital?**

11 A. Staff makes the following recommendations for Black Mountain's cost of capital:

- 12
13 1. Staff recommends a capital structure of 0.0 percent debt and 100.0 percent equity.
14 2. Staff recommends a cost of debt of 9.4 percent.
15 3. Staff recommends a cost of equity of 9.4 percent.
16 4. Staff recommends an overall rate of return of 9.4 percent.

17
18 **Q. Does this conclude your testimony?**

19 A. Yes, it does.

⁵ Mr. Bourassa's Rebuttal, page 12, lines 19-20

Black Mountain Sewer Cost of Capital Calculation
Capital Structure
And Weighted Average Cost of Capital
Staff Recommended and Company Proposed

[A]	[B]	[C]	[D]
<u>Description</u>	<u>Weight (%)</u>	<u>Cost</u>	<u>Weighted Cost</u>
Staff Recommended Structure			
Debt	0.0%	9.4%	0.0%
Common Equity	100.0%	9.4%	9.4%
Weighted Average Cost of Capital			9.4%
Company Proposed Structure			
Debt	0.0%	9.4%	0.0%
Common Equity	100.0%	12.8%	12.8%
Weighted Average Cost of Capital			12.8%

[D] : [B] x [C]

Supporting Schedules: JCM-3 and JCM-4.

Intentionally left blank

[A]		[B]	[C]	[D]	[E]
DCF Method					
Constant Growth DCF Estimate			$\frac{D_1/P_0}{^1}$	+ q^2	= k
Multi-Stage DCF Estimate			3.7%	+ 5.8%	= 9.5%
Average of DCF Estimates					= <u>10.3%</u>
					9.9%
CAPM Method		R _f	β^5	x (R _p)	= k
Historical Market Risk Premium ³		2.9%	0.80	x 6.9% ⁶	= 8.5%
Current Market Risk Premium ⁴		4.3%	0.80	x 10.3% ⁷	= <u>12.5%</u>
Average of CAPM Estimates					= 10.5%
				Average	10.2%
				Financial risk adjustment	<u>-0.8%</u>
				Total	9.4%

7 Testimony

Black Mountain Sewer Cost of Capital Calculation
Average Capital Structure of Sample Water Utilities

[A]	[B]	[C]	[D]
<u>Company</u>	<u>Debt</u>	<u>Common Equity</u>	<u>Total</u>
American States Water	48.4%	51.6%	100.0%
California Water	47.9%	52.1%	100.0%
Aqua America	52.7%	47.3%	100.0%
Connecticut Water	50.7%	49.3%	100.0%
Middlesex Water	53.2%	46.8%	100.0%
SJW Corp	<u>48.6%</u>	<u>51.4%</u>	<u>100.0%</u>
Average Sample Water Utilities	50.2%	49.8%	100.0%
Black Mtn - Actual Capital Structure ¹	21.6%	78.4%	100.0%

Source:

Sample Water Companies from Value Line

¹ The Capital Structure for ratemaking is 0.0 percent debt and 100.0 percent equity.

Black Mountain Sewer Cost of Capital Calculation
Growth in Earnings and Dividends
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]
<u>Company</u>	Dividends Per Share 1998 to 2008 <u>DPS¹</u>	Dividends Per Share Projected <u>DPS¹</u>	Earnings Per Share 1998 to 2008 <u>EPS¹</u>	Earnings Per Share Projected <u>EPS¹</u>
American States Water	1.8%	4.6%	3.7%	10.9%
California Water	0.9%	2.8%	2.7%	6.9%
Aqua America	7.0%	5.0%	6.2%	11.4%
Connecticut Water	1.3%	No Projection	1.0%	No Projection
Middlesex Water	2.1%	No Projection	2.9%	No Projection
SJW Corp	<u>5.5%</u>	<u>No Projection</u>	<u>3.0%</u>	<u>No Projection</u>
Average Sample Water Utilities	3.1%	4.1%	3.4%	9.7%

1 Value Line

Black Mountain Sewer Cost of Capital Calculation
Sustainable Growth
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]
	Retention Growth 1999 to 2008 <u>br</u>	Retention Growth Projected <u>br</u>	Stock Financing Growth <u>vs</u>	Sustainable Growth 1999 to 2008 <u>br + vs</u>	Sustainable Growth Projected <u>br + vs</u>
<u>Company</u>					
American States Water	3.0%	6.4%	1.4%	4.4%	7.9%
California Water	2.0%	6.1%	4.2%	6.2%	10.3%
Aqua America	4.8%	5.7%	3.5%	8.3%	9.2%
Connecticut Water	2.6%	No Projection	0.8%	3.4%	No Projection
Middlesex Water	1.4%	No Projection	2.3%	3.7%	No Projection
SJW Corp	<u>4.5%</u>	<u>No Projection</u>	<u>0.1%</u>	<u>4.6%</u>	<u>No Projection</u>
Average Sample Water Utilities	3.0%	6.1%	2.1%	5.1%	9.1%

[B]: Value Line

[C]: Value Line

[D]: Value Line and MSN Money

[E]: [B]+[D]

[F]: [C]+[D]

Black Mountain Sewer Cost of Capital Calculation
Selected Financial Data of Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[G]
	Symbol	Spot Price 10/28/2009	Book Value	Mkt To Book	Value Line Beta β	Raw Beta β_{raw}
Company	AWR	34.58	17.74	1.9	0.80	0.67
American States Water	CWT	38.17	20.11	1.9	0.75	0.60
California Water	WTR	15.64	8.21	1.9	0.65	0.45
Aqua America	CTWS	22.37	12.64	1.8	0.85	0.75
Connecticut Water	MSEX	15.31	10.92	1.4	0.80	0.67
Middlesex Water	SJW	21.76	14.75	1.5	0.95	0.90
SJW Corp						
Average				1.7	0.80	0.67

[C]: Msn Money

[D]: Value Line

[E]: [C] / [D]

[F]: Value Line

[G]: $(-0.35 + [F]) / 0.67$

Black Mountain Sewer Cost of Capital Calculation
Calculation of Expected Infinite Annual Growth in Dividends
Sample Water Utilities

[A]	[B]
<u>Description</u>	g
DPS Growth - Historical ¹	3.1%
DPS Growth - Projected ¹	4.1%
EPS Growth - Historical ¹	3.4%
EPS Growth - Projected ¹	9.7%
Sustainable Growth - Historical ²	5.1%
<u>Sustainable Growth - Projected²</u>	<u>9.1%</u>
Average	5.8%

¹ Schedule JCM-5

² Schedule JCM-6

Black Mountain Sewer Cost of Capital Calculation
Multi-Stage DCF Estimates
Sample Water Utilities

[A]	[B]	[C]	[D]	[E]	[F]	[H]	[I]
Company	Current Mkt. Price (P_0) ¹ 10/28/2009	Projected Dividends ² (Stage 1 growth) (D_t)			Stage 2 growth ³ (g_n)		Equity Cost Estimate (K) ⁴
American States Water	34.6	d_1	d_2	d_3	d_4		
California Water	38.2	1.06	1.12	1.18	1.25	6.7%	9.7%
Aqua America	15.6	1.23	1.30	1.38	1.46	6.7%	9.8%
Connecticut Water	22.4	0.57	0.60	0.64	0.68	6.7%	10.2%
Middlesex Water	15.3	0.93	0.98	1.03	1.09	6.7%	10.7%
SJW Corp	21.8	0.75	0.79	0.84	0.89	6.7%	11.5%
		0.69	0.73	0.77	0.81	6.7%	9.8%

Average **10.3%**

$$P_0 = \sum_{t=1}^n \frac{D_t}{(1+K)^t} + \frac{D_n(1+g_n)}{K-g_n} \left[\frac{1}{(1+K)} \right]^n$$

Where : P_0 = current stock price

D_t = dividends expected during stage 1

K = cost of equity

n = years of non – constant growth

D_n = dividend expected in year n

g_n = constant rate of growth expected after year n

¹ [B] see Schedule JCM-7

² Derived from Value Line Information

³ Average annual growth in GDP 1929 - 2008 in current dollars.

⁴ Internal Rate of Return of Projected Dividends

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

IN THE MATTER OF THE APPLICATION OF)
BLACK MOUNTAIN SEWER CORPORATION)
FOR A DETERINATION OF THE FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN IT'S)
RATES AND CHARGES FOR UTILITY)
SERVICE BASED THEREON)
_____)

DOCKET NO. SW-02361A-08-0609

SURREBUTTAL TESTIMONY

OF

DOROTHY HAINS

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

NOVEMBER 9, 2009

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EXHIBITS

Off-Site Facilities Hook-Up Fee Tariff (Wastewater)	Exhibit 1
Black Mountain Sewer Corporation Contract #960058 Letter	Exhibit 2

1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Dorothy Hains. My business address is 1200 West Washington Street,
4 Phoenix, Arizona 85007.

5
6 **Q. Are you the same Dorothy Hains who has previously filed testimony in the Black**
7 **Mountain Sewer Corporation ("Company") rate proceeding?**

8 A. Yes.

9
10 **Q. What is the purpose of your Surrebuttal Testimony?**

11 A. In my Surrebuttal Testimony I will respond to two issues raised in the Company's
12 Rebuttal Testimony (1) the Company claims that Staff changed its position and now
13 supports the Company's original request for a wastewater off-site facilities hookup fee
14 tariff; and (2) the Company pointed out two errors in Staff's water testing expense
15 adjustments and that the City of Scottsdale had suggested the Company increase its annual
16 total suspended solids ("TSS") tests and other parameter tests in City correspondence
17 dated September 29, 2009.

18
19 **II. OFF-SITE HOOKUP FEE TARIFF**

20 **Q. Has Staff changed its position on this tariff?**

21 A. No. Staff recommends that the Company's proposal to implement such a tariff be denied
22 Staffs review of the Company's proposed tariff was based on (1) 270 additional customers
23 to be served by the Company within next five years; (2) using 315 gallons per day
24 ("GPD")/customer¹ to determine increased waste water flow within next five years, Staff
25 estimated that the Company would need an additional 80,050 GPD of treatment capacity;
26 (3) all 80,050 GPD will be treated by City Scottsdale wastewater treatment system

¹ 315 GPD/customer is the maximum daily flow during the test year.

1 (“CSWWTS”); (4) the Company purchased 400,000 GPD from CSWWTS, but the
2 Company only delivered 393,000 GPD to CSWWTS for treatment during the Test Year
3 and (5) CSWWTS agrees to treat 1,000,000 GPD wastewater for the Company, and the
4 Company will pay \$6/GPD to CSWWTS based on Contract No. 960058.

5
6 Staff estimated that the Company will purchase an additional 78,050 GPD with a cost of
7 \$468,300 to serve 270 new customers. The Off-site Hookup Fee Tariff of \$1,734 per 4-
8 inch service lateral equivalent would be appropriate. In case, the Commission disagrees
9 with Staff and wishes to approve an offsite facilities hookup fee tariff for the Company.
10 Staff has calculated the above figure and attached a tariff for Commission consideration.
11 (See Exhibit 1.)

12
13 **III. ANNUAL WATER TESTING COST ADJUSTMENTS**

14 **Q. The Company pointed out two errors in Tables 5 and 6 in Staff’s Engineering**
15 **Report. Please respond.**

16 **A.** Staff agrees with the Company that these two errors should be corrected. Therefore
17 Tables 5 and 6 in Staff’s Engineering Report should be replaced with the following
18 corrected Tables.

19
20 **Table 5 Wastewater Testing Cost per Permit Monitoring Requirement**
21 **(Boulders WWTP – APP # P11175)**
22

	Cost per test	No. of tests per year	Annual Cost
Fecal Coliform – daily	\$15	365	\$5,475
Total Nitrogen (effluent) - monthly	\$52	12	\$624
Fluoride (effluent) - quarterly	\$16	4	\$64
Cyanide (effluent) –	\$56	4	\$224

quarterly			
Antimony (effluent) – quarterly	\$16.80	4	\$67
Arsenic (effluent) – quarterly	\$16.80	4	\$67
Volatile Organic Compound's (effluent) – Semi-annually	\$625	2	\$1,250
Enteric Virus - monthly	\$460	12	\$5,520
Turbidity - daily	\$0*	365	\$0
Barium (effluent) – quarterly	\$10	4	\$40
Beryllium (effluent) – quarterly	\$10	4	\$40
Cadmium (effluent) – quarterly	\$15	4	\$60
Chromium (effluent) – quarterly	\$10	4	\$40
Lead (effluent) – quarterly	\$15	4	\$60
Mercury (effluent) – quarterly	\$32	4	\$128
Nickel (effluent) – quarterly	\$10	4	\$40
Selenium (effluent) – quarterly	\$15	4	\$60
Thallium (effluent) – quarterly	\$15	4	\$60
ICP digestion	\$16	1	\$16
ICP-MS digestion	\$15	1	\$15
Total			\$13,850

Note: The Company uses on-site auto turbidity meter to measure this parameter. *

Table 6 Wastewater Testing Cost per Service Agreement Monitoring Requirement
(City of Scottsdale – Agreement #960058)

	Cost per test	No. of tests per year	Annual Cost
BOD ₅ - 7 samples/quarterly	\$36	28	\$1,008
TSS - 7 samples/quarterly	\$13	28	\$364
Total			\$1,372

Q. What water quality testing expense(s) does Staff now recommend be used for purposes of this rate case?

A. Staff recommends a water testing expense of \$15,222 be used instead of the \$14,362 previously recommended.

Q. In the Company's Rebuttal, the Company stated that it needed an additional \$13,360 based on the September 29, 2009 letter from the City (see Exhibit 2). Does Staff agree with the Company? Please explain.

A. No. The City only suggested that the Company monitor additional parameters and increase the monitoring frequencies in its September 29, 2009 letter. The City did not say that the suggested monitoring requirements would replace the monitoring requirements in Contract No. 960058 ("Contract"), which requires the Company to only monitor and report the levels of BOD₅ and TSS in the wastewater flow to the City on a quarterly basis. The City may request additional monitoring parameters and sampling frequencies after the Contract expires in 2016 or if the Company discharges over 1,000,000 GPD to the City WWTS. Based on the Company 2008 Master Plan, Staff does not believe that the wastewater flow will exceed 1,000,000 GPD prior to 2027. Therefore, Staff concludes that no additional testing costs for wastewater that discharges to the City WWTS will apply until the current contract expires in 2016.

- 1 **Q.** Does this conclude your Surrebuttal Testimony?
- 2 **A.** Yes, it does.

Exhibit 1

TARIFF SCHEDULE

UTILITY: Black Mountain Sewer Corporation
DOCKET NO.: SW-02361A-080609

DECISION NO. _____
EFFECTIVE DATE: _____

OFF-SITE FACILITIES HOOK-UP FEE (WASTEWATER)

I. Purpose and Applicability

The purpose of the off-site facilities hook-up fees payable to Black Mountain Sewer Corporation ("the Company") pursuant to this tariff is to equitably apportion the costs of constructing additional off-site facilities to provide wastewater treatment plant facilities among all new service laterals. These charges are applicable to all new service laterals established after the effective date of this tariff. The charges are one-time charges and are payable as a condition to Company's establishment of service, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R-14-2-601 of the Arizona Corporation Commission's ("Commission") rules and regulations governing sewer utilities shall apply interpreting this tariff schedule.

"Applicant" means any party entering into an agreement with Company for the installation of wastewater facilities to serve new service laterals, and may include Developers and/or Builder of new residential subdivisions.

"Company" means Black Mountain Sewer Corporation.

"Collection Main Extension Agreement" means any agreement whereby an Applicant, Developer and/or Builder agrees to advance the costs of the installation of wastewater facilities to the Company to serve new service laterals, or install wastewater facilities to serve new service laterals and transfer ownership of such wastewater facilities to the Company, which agreement does not require the approval of the Commission pursuant to A.A.C. R-14-2-606, and shall have the same meaning as "Wastewater Facilities Agreement".

"Off-site Facilities" means the wastewater treatment plant, sludge disposal facilities, effluent disposal facilities and related appurtenances necessary for proper operation, including engineering and design costs. Offsite facilities may also include lift stations, transportation mains and related appurtenances necessary for proper operation if these facilities are not for the exclusive use of the applicant and benefit the entire wastewater system.

"Service Lateral" means and includes all service laterals for single-family residential or other uses.

III. Off-Site Facilities Hook-up Fee

For each new service lateral, the Company shall collect an off-site facilities hook-up fee as listed in the following table:

TREATMENT PLANT HOOK-UP FEE TARIFF TABLE		
Service Lateral Size	Factor	Fee
4-inch	1	\$1,734
6-inch	2.25	\$3,901
8-inch	4	\$6,936
10-inch	6.25	\$10,837

IV. Terms and Conditions

(A) Assessment of One Time Off-Site Facilities Hook-up Fee: The off-site facilities hook-up fee may be assessed only once per parcel, service lateral, or lot within a subdivision (similar to a service lateral installation charge).

(B) Use of Off-Site Facilities Hook-up Fee: Off-site facilities hook-up fees may only be used to pay for capital items of off-site facilities, or for repayment of loans obtained for installation of off-site facilities. Off-site hook-up fees shall not be used for repairs, maintenance, closing treatment plant, lift stations or other operational purposes.

(C) Time of Payment:

(1) In the event that the person or entity that will be constructing improvements ("Applicant", "Developer" or "Builder") is otherwise required to enter into a Collection Main Extension Agreement, payment of the fees required hereunder shall be made by the Applicant, Developer or Builder when operational acceptance is issued for the on-site wastewater facilities constructed to serve the improvement.

(2) In the event that the Applicant, Developer or Builder for service is not required to enter into a Collection Main Extension Agreement, the charges hereunder shall be due and payable at the time wastewater service is requested for the property.

(D) Off-Site Facilities Construction by Developer: Company and Applicant, Developer, or Builder may agree to construction of off-site facilities necessary to serve a particular development by Applicant, Developer or Builder, which facilities are then conveyed to Company. In that event, Company shall credit the total cost of such off-site facilities as an offset to off-site hook-up fees due under this Tariff. If the total cost of the off-site facilities constructed by Applicant, Developer or Builder and conveyed to Company is less than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall pay the remaining amount of off-site hook-up fees owed hereunder. If the total cost of the off-site facilities contributed by Applicant, Developer or Builder and conveyed to Company is more than the applicable off-site hook-up fees under this Tariff, Applicant, Developer or Builder shall be refunded the difference upon acceptance of the off-site facilities by the Company.

(E) Failure to Pay Charges; Delinquent Payments: The Company will not be obligated to provide wastewater service to any Developer, Builder or other applicant for service in the event that the Developer, Builder or other applicant for service has not paid in full all charges hereunder. Under no circumstances will the Company connect service or otherwise allow service to be established if the entire amount of any payment has not been paid.

(F) Off-Site Hook-Up Fees Non-refundable: The amounts collected by the Company pursuant to the off-site facilities hook-up fee tariff shall be non-refundable contributions in aid of construction.

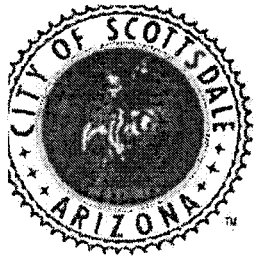
(G) Use of Off-Site Hook-Up Fees Received: All funds collected by the Company as off-site facilities hook-up fees shall be deposited into a separate interest bearing trust account and used solely for the purposes of paying for the costs of off-site facilities, including repayment of loans obtained for the installation of off-site facilities.

(H) Off-Site Facilities Hook-up Fee in Addition to On-site Facilities: The off-site facilities hook-up fee shall be in addition to any costs associated with the construction of on-site facilities under a Collection Main Extension Agreement.

(I) Disposition of Excess Funds: After all necessary and desirable off-site facilities are constructed utilizing funds collected pursuant to the off-site facilities hook-up fees, or if the off-site facilities hook-up fee has been terminated by order of the Arizona Corporation Commission, any funds remaining in the trust shall be refunded. The manner of the refund shall be determined by the Commission at the time a refund becomes necessary.

(J) Status Reporting Requirements to the Commission: The Company shall submit a calendar year Off-Site Facilities Hook-Up Fee status report each January 31st to Docket Control for the prior twelve (12) month period, beginning January 31, 2011, until the hook-up fee tariff is no longer in effect. This status report shall contain a list of all customers that have paid the hook-up fee tariff, the amount each has paid, the amount of money spent from the account, the amount of interest earned on the tariff account, and a list of all facilities that have been installed with the tariff funds during the 12 month period.

Exhibit 2



Water Campus

8787 E. Hualapai Dr.
P.O. Box 25089
Scottsdale, AZ 85255

September 29, 2009

Charlie A. Hernandez, Regional Operations Manager
Liberty Water
12725 W. Indian School Road Suite D101
Avondale, AZ 85392

**Re: Black Mountain Sewer Corporation Contract #960058
Sampling Requirements**

Black Mountain Sewer Corporation (BMSC) has provided the City of Scottsdale with BOD, TSS and Oil & Grease sampling results. Adequate facilities to enable proper collection of samples are present at the sampling site, the point of discharge to the City of Scottsdale. The SOP provided for sample collection do not appear to meet the sample collection methods approved by Scottsdale Revised Code Sec. 49-91 or 40 CFR 403.12(g)(3) and (4).

The current contract does not specifically state the parameters required for compliance. BOD and TSS analysis is required to compute the non-uniform large volume discharge user charges required by Scottsdale Revised Code Sec. 49-141g(2). These samples require 24-hour flow proportional sampling rather than grab sampling to obtain representative results.

I suggest BMSC mirror the sampling schedule requirements the City of Scottsdale follows for its discharge to the City of Phoenix. I have attached with this letter a summary of the parameters and frequency required. Conformance to required sampling protocols for the collection of these samples is mandatory.

I would like to observe BMSC's sample collection early within the 4th Quarter of this year. Please let me know if Liberty Water cannot commit to this request.

Please feel free to contact me regarding any questions you have.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Hurd", is written over a horizontal line.

Bill Hurd, Pretreatment Coordinator
WATER QUALITY DIVISION
8787 East Hualapai Drive PO Box 25089
Scottsdale, AZ 85255-0176

CC: Richard Sack, Water Resources Engineer
Carie Wilson, Water Quality Regulatory Compliance Manager

Draft Sampling Requirements

Parameter (1)	Daily Maximum	Monthly Average	Instant. Effluent Limit	Sampling Method	Minimum Sampling Frequency
Ammonia as N	N/A	N/A	N/A	Composite	7 per Quarter
Arsenic	0.13	N/A	N/A	Composite	4 per Quarter
Beryllium	N/A	N/A	N/A	Composite	4 per Quarter
BOD	N/A	N/A	N/A	Composite	7 per Quarter
Boron	N/A	N/A	N/A	Composite	4 per Quarter
Cadmium	0.047	N/A	N/A	Composite	4 per Quarter
Chromium	N/A	N/A	N/A	Composite	4 per Quarter
COD	N/A	N/A	N/A	Composite	7 per Month
Copper	1.5	N/A	N/A	Composite	4 per Quarter
Cyanide	2.0	N/A	N/A	Grab	4 per Quarter
Flow (gallons per day) (2)	400,000 GPD	N/A	N/A	Measured	Daily
Fluoride	N/A	N/A	N/A	Composite	4 per Quarter
Lead	0.41	N/A	N/A	Composite	4 per Quarter
Mercury	0.0023	N/A	N/A	Composite	4 per Quarter
Molybdenum	N/A	N/A	N/A	Composite	4 per Quarter
Nickel	N/A	N/A	N/A	Composite	4 per Quarter
Nitrate-N	N/A	N/A	N/A	Composite	7 per Quarter
Nitrite-N	N/A	N/A	N/A	Composite	7 per Quarter
Selenium	0.10	N/A	N/A	Composite	4 per Quarter
Silver	1.2	N/A	N/A	Composite	4 per Quarter
TKN	N/A	N/A	N/A	Composite	7 per Quarter
TDS	N/A	N/A	N/A	Composite	7 per Month
TSS	N/A	N/A	N/A	Composite	7 per Month
Zinc	3.5	N/A	N/A	Composite	4 per Quarter
Temperature	N/A	N/A	150°F / 60°C	Grab	7 per Month
pH (standard units) (3)	N/A	N/A	5.0-10.5	Grab	7 per Month
GC/MS by EPA Methods 624, 625 & 608 Total Toxic Organics (TTO) (4)	N/A	N/A	N/A	Grab/Comps	Semi-Annual
Benzene	N/A	N/A	0.035	Grab	Semi-Annual
Chloroform	N/A	N/A	2.000	Grab	Semi-Annual
4, 4' - DDE	Prohibited	N/A	N/A	Composite	Semi-Annual
4, 4' - DDT	Prohibited	N/A	N/A	Composite	Semi-Annual
Aldrin	Prohibited	N/A	N/A	Composite	Semi-Annual
BHC - Alpha	Prohibited	N/A	N/A	Composite	Semi-Annual
BHC - Beta	Prohibited	N/A	N/A	Composite	Semi-Annual
BHC - Gamma (Lindane)	Prohibited	N/A	N/A	Composite	Semi-Annual
Heptachlor	Prohibited	N/A	N/A	Composite	Semi-Annual
Heptachlor Epoxide	Prohibited	N/A	N/A	Composite	Semi-Annual
Polychlorinated Biphenyl Compounds (PCB's)	Prohibited	N/A	N/A	Composite	Semi-Annual

Notes:

- (1) Unless otherwise noted, all discharge limits are in mg/L and in total form.
- (2) Flow shall be limited to the purchased capacity acquired and shall be monitored with electronic secondary flow measurement equipment calibrated at least annually by the Permittee. The measurement data shall be electronically communicated to the City via telemetry equipment.
- (3) pH is a field parameter that must be analyzed on site, immediately upon collection, and in accordance with 40 CFR §136.
- (4) Total Toxic Organics (TTO) compounds to be monitored and reported are specified in Attachment A. Total Toxic Organics is the summation of all quantifiable values greater than .01 milligrams per liter for the compounds specified in Attachment A, and any detectable concentration of any of the compounds specified in SRC Sec. 49-166 (12). See Section I. E of this Permit below for further details.